Opportunities Lure Investors to India

Strong economic growth, which has continued at an annual rate exceeding 6% even during the global economic slowdown, and a huge domestic market with a population of more than 1.2 billion, underline India’s status as an important investment location for chemical manufacturers and their customer industries. India offers huge opportunities despite concerns about corruption and poor infrastructure, executives say. A large number of multinationals plan to expand their presence in the country.

India has a range of advantages for multinational chemical investors, analysts say. “The improving free enterprise system; a huge engineering talent pool; the large infrastructure investment plans; current low per capita chemical consumption; favorable labor costs for downstream manufacture; special economic zones [SEZ]; and petroleum, chemicals, and petrochemical investment regions [PCPIR] are some of the main attractions for investing in India,” says Paul Bjacek, chemicals research lead at Accenture.

Leading European companies with major subsidiaries in India include Lanxess, as well as BASF, Bayer, and Clariant. Lanxess considers India among the fastest growing end-consumer markets in the world across various business categories and sectors, and says this will result in the establishment in the country of an increasing number of production sites for intermediates and end-products. “The world’s largest democracy and the second-biggest market in Asia had an economic growth rate last year of 6% at a time when economic growth for the world as a whole was 1.9%,” says Jörg Strassburger, managing director and country representative at Lanxess India (Thane). “In addition, the market for chemicals in India grew by 6% last year. These are truly impressive numbers. The chemical industry is needed to fulfill increasing consumption of raw materials and intermediates, and will have a great future in India,” Strassburger says.

Bayer says that India is a very important market for the company and that it continues to grow in importance. Bayer recorded sales of about €400 million ($560 million) in India in 2008, the latest year for which figures are available. Sales were impacted in 2009 by a steep devaluation of the Indian currency against the euro and by the economic crisis, Bayer says. The company, however, says it expects double-digit annual growth in sales in India during the next several years. “India is poised for long-term economic growth with one of the largest populations in the world and a fast-growing middle class,” Bayer says. “There is a significant and growing share of consumers for our products and technologies. And in the wake of India’s World Trade Organization membership, pharmaceutical and agchem products became patentable in 2005. Thus, the market has gained substantially in attractiveness. We also see the potential of a well-qualified workforce for the Indian market and as a talent pool for Bayer globally,” the company says.

BASF also sees abundant opportunities in the Indian market. “The rapidly growing middle class is the source of demand for modern products,” says Prasad Chandran, chairman of BASF companies in India and head of south Asia. “The composition of the population is also among the most promising in the world, with a median age being 25.1 years. India has rich analytical abilities and language advantage, synergized with the availability of a skilled technical workforce in manufacturing and R&D at all levels. The low capital and operating costs for running plants are other added advantages. With better infrastructure, manufacturing can take off in a big way in India,” Chandran says.

Clariant has concluded that “with the shift in our customer industries from established old economies to the new world economies, particularly India, and with the significant rise in domestic industries, demand cannot be met with imports alone on a continuous basis,” says Peter Palm, vice chairman and managing director at Clariant Chemicals India (Mumbai). “It requires local production and logistics infrastructure,” he says.

Investing and doing business in India is not devoid of challenges, however, multinationals say. “Infrastructure still needs considerable improvement and there are challenges around bureaucracy, corruption, poverty, and social tensions, which are characteristic of emerging economies,” Bayer says. “There is also room for improvement in the enforcement and transparency of patentability, as well as other elements of intellectual property rights.”

“Continued bureaucracy” is a major
needed infrastructure investment,” Bjacek says.

Andhra Pradesh Industrial Infrastructure Corp. (APIIC; Hyderabad), the nodal agency for the Vishakhapatnam PCPIR, says the project is at an initial stage of planning and that a masterplan should be completed within six months. About 75%-80% of the land required for the project is available and the remaining land acquisition will be carried out in about one year, APIIC says.

Infrastructure building will be completed within 2-3 years, APIIC adds. Invitations will be issued next year to large-sized Indian and overseas chemical and petchem companies to invest in the PCPIR. APIIC expects a total investment of about $65 billion at the Vishakhapatnam site. It declined to comment on when it expects the PCPIR to be fully functional.

Some Indian firms, meanwhile, are establishing their own investment zones. Dishman Pharmaceuticals & Chemicals (Ahmedabad), a producer of active pharmaceutical ingredients (API), interm-
diodes, and fine chemicals, says it has started


corrhution.

Infrastructure is considered a particular weakness and an area where India lags other countries. “Investors coming to India will witness inadequate and not up-to-the-mark airports, seaports, roads, power grids, communication systems, health care, and education,” Strassburger says. “Undoubtedly, India is a tough place to do business. But we cannot deny the fact that India will be a strong country in the future and its strategic location works in its favor abundantly,” he says.

Leading Indian chemical companies see the development of large, integrated production sites as a way to offset the country’s lack of infrastructure. “Setting up specific, large chemical industry zones and complexes is critical to ensure growth of the chemical industry and encourage investments,” says R. Mukundan, managing director at Tata Chemicals (Mumbai). “We hope there will be good support from the government in the form of providing infrastructure and a framework for these integrated chemical complexes, to bring to bear economic as well as safety, health, and environmental synergies,” Mukundan says.

The Indian government approved a policy in 2007 for establishing PCPIRs as a way to encourage investment from overseas in India’s petroleum, chemical, and petrochemical sectors. The government approved proposals in early 2009 to establish PCPIRs at Vishakhapatnam in the state of Andhra Pradesh; Haldia, West Bengal; and Dahej, Gujarat. “India’s PCPIRs represent a positive development for foreign investors, as they include government support for sorely
“silent” marketing, mainly to the company’s international customers, encouraging them to invest in Dishman’s previously announced 390-acre pharmaceutical and chemical SEZ at Bavla. Dishman declined to comment on whether it has secured any investment commitments in the Bavla SEZ, which it aims to establish as a location for companies from all sectors of the chemical industry.

Dishman is in the process of building up the SEZ’s infrastructure, which will not be completed until June 2011, and formal marketing of the SEZ will begin in early 2011. “Following completion of the infrastructure, we expect that by mid-2012 the first facility in the SEZ will become operational, and that by about 2016 the SEZ will be fully functional,” says Henk Pluim, director/technology transfer at Dishman. The company told CW last October that it expects total investments of about $3 billion in the SEZ in the next three years, including an API manufacturing plant to be built by Dishman.

The Indian government should take further steps to promote India as a chemical or pharmaceutical investment location, Dishman says. “It would be decisive to create a single-window clearance and a very fast process for approving investment,” says JR Vyas, chairman and managing director at Dishman. “Additionally, better infrastructure is required, the cost of fuel and power should be reduced, and to promote SEZs longer tax holidays should be allowed for the SEZ companies,” Vyas says.

Chemical sectors that are growing most rapidly in India are likely to attract the biggest investments, Bjacek says. They include pharmaceuticals, fertilizers, agchems, textile chemicals, and a range of other specialty chemicals. “Joint ventures in large-scale refinery and petrochemical projects, provided they have sound feedstock costs and downstream outlets, may also attract foreign petrochemical companies,” Bjacek says. “And the scaling up of India’s car industry, including the low-cost Tata Nano vehicles, represents opportunities for automotive plastics, paints, and lubricants.”

Tata Chemicals recently boosted its agchem business by increasing its stake in Rallis India (Mumbai) from 9.4%, to 50.06%. “Rallis has a strong presence in crop protection and Tata Chemicals is strong in crop nutrition,” Mukundan says. “Now we will be able to add more value for our stakeholders in terms of providing complete solutions in farm inputs.”

The fertilizer and agchem business of Tata Chemicals accounts for about 50% of the company’s revenues, and Tata Chemicals is planning to expand the business further. “We have started the process of setting up a customized fertilizer plant at our Babrala, India facility, which will be operational in one year’s time,” Mukundan says. Tata Chemicals also plans to expand urea production at the Babrala site. “This expansion plan is as per the current government policy of encouraging new investment in the urea sector, and we are awaiting confirmation from the government regarding gas supply commitments to begin our investment,” Mukundan says.

Leading U.S. companies with major subsidiaries in India include Ashland, Dow Corning, and DuPont. Dow Corning India (Mumbai) says that current low consumption of silicones in India represents a huge opportunity for the company. “Per capita consumption of silicones in the western world is nearly 6-7 times per capita consumption of silicones in India,” says Jean-Paul Mollie, regional president/Mideast, South Asia, and Africa at Dow Corning. The company expects to grow its revenues in India at twice the rate of domestic GDP over the next five years.

Dow Corning plans to focus mainly on supplying the automotive and solar industries in India. “The solar industry is going to get a lot of support from the Indian government,” Mollie says. Current consumption of silicones in India’s automotive industry is extremely small compared with the automotive industry in the west, so there is a lot of room for growth, he says.

Dow Corning India has a plant at Pune in the state of Maharashtra that manufactures various types of silicone-based emulsions, polymers, greases, and lubricants for industries such as construction, textiles, beauty and personal care, automotive, and electronics. The company says it chose Pune because “it is an expanding region and many of our customers are located near the site.”

Gujarat is one of the biggest chemical-manufacturing regions in India and several multinationals have invested there. Lanxess India is developing a site at Jhagadia, Gujarat for the manufacture of ion exchange resins and rubber chemicals with a total investment of €30 million. The rubber chemicals project involves relocating production from Thane to Jhagadia. The ion exchange resins plant and the rubber chemicals plant will be commissioned this year, the company says. Lanxess India had sales of €115 million in 2008. “Gujarat is a state that is aligned toward strong growth and will become increasingly significant in the future as a trend-setting base for the industry,” Strassburger says. “In addition to chemical and petrochemical products, fertilizer and electronics manufacturers have moved to this area.”

Ashland India (Mumbai) has several businesses in India including water technologies, performance materials, and functional ingredients. The company is looking to expand these operations. “The Ashland Hercules Water Technologies global commercial unit considers the water treatment and paper chemicals market in India an important growth opportunity with long-term potential for further investment,” says Vivek Singh, managing director at Ashland India.

Ashland acquired a 25-acre property at
Jhagadia in early 2008, to develop a production site for resins to supply the composites and metal casting consumables industries. The company declined to comment on when construction would begin at Jhagadia. “At this time, specific plans for the site are still evolving,” Singh says.

DuPont generated sales of about $500 million in India in 2008, and says India is the 10th-largest revenue earner for the company globally and the third largest in Asia/Pacific. “Our target is to become a billion-dollar company soon,” says Balvinder Kalsi, president and CEO at DuPont India. The company has production facilities at Vadodara, Gujarat for engineering polymers, crop protection products, and refinish paints; at Medchal, Andhra Pradesh for the company’s Pioneer seeds; and Madurai, Tamil Nadu for filaments and non-stick coatings.

DuPont says it is expanding its manufacturing operations at Vadodara and Madurai. “DuPont India will grow its existing businesses and focus on mega opportunities in agriculture and food, automotive, renewable energy, and construction materials,” Kalsi says.

Bayer says it is pursuing growth strategies in India for the Bayer CropScience, Bayer MaterialScience, and Bayer HealthCare subgroups. Bayer CropScience is the largest business for Bayer in India and it plans to introduce several new products there. “We see a particularly high growth potential in the seeds business,” Bayer says. “For Bayer MaterialScience, we expect the market to grow substantially in the long term, driven by the construction, electronics, automotive, and transport industries. And we want to exploit this potential by focusing on downstream activities for all business units of Bayer MaterialScience,” the company says.

Bayer MaterialScience opened its first polyurethane systems house in India in 2007, at Greater Noida, and the company is scheduled to complete a polycarbonate color competence and design center at the same site this September. “Bayer HealthCare is currently the smallest subgroup in India and we are in the process of developing business plans to fully participate in the promising healthcare market,” Bayer says.

BASF says that the growing focus on infrastructure development will provide a major impetus to growth of the company’s construction chemicals business in India. It also expects growth in sales to India’s pharma and automotive industries. “BASF is supplying Tata Motors with products and engineering solutions for its Nano cars that reduce emissions, enhance fuel efficiency, and improve the car’s overall look,” Chandran says.

BASF’s manufacturing facilities in India are at Mangalore and Thane. The company has a compounding plant for engineering plastics at the Thane site with capacity for

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BASF gained several businesses in India as part of the company’s acquisition last year of Ciba Specialty Chemicals. Ciba India, Diamond Dye-Chem, and Ciba Research India will be merged with BASF India this month. BASF says these additions will open up new routes to market and expand the company’s presence in the plastics and coating chemicals businesses. Combining the BASF and Ciba paper chemical businesses will create a strong technology and service-oriented supplier in India, BASF says.

Indian firms are taking advantage of the growing economy to branch out into new business areas. Tata Chemicals recently entered the biofuels business and says it sees biofuels as a major opportunity. “Our biofuels program is moving in the right direction, and we are growing this business in partnership with various firms,” Mukundan says. Tata Chemicals has built a bioethanol demonstration plant at Nanded, India. “We are also setting up a biodiesel test plant at Nanded,” Mukundan says.

Many chemical multinationals are, meanwhile, choosing to tap local resources to establish research bases in India, analysts say. “A good part of the R&D investment in India is to take advantage of the country’s low-cost and high-quality R&D resources,” Bjacek says. “These efforts typically serve the home-market needs of western companies, but there is R&D occurring for the local market as well.”

DuPont India says that its DuPont Knowledge Center at Hyderabad, which was opened in November 2008, will accommodate more than 600 scientists and other employees in a first phase of development. “The center will allow us to access the tremendous scientific talent in this region and increase our speed to market for products, for India and other growth regions,” Kalsi says. The center will focus on many areas, including enhancing agricultural productivity, bio-based materials, renewable energy, and applications for the safety and protection markets, he says.

Bayer CropScience entered into a research cooperation with GVK Biosciences (Hyderabad) last November in the field of early-discovery chemistry, and to speed up the search for active ingredients for innovative crop protection products. “The cooperation with GVK Bio, Asia’s leading contract research organization in the area of early-discovery chemistry, will help Bayer CropScience to further increase efficiency in its research and help the company to participate in the quickly developing scientific environment in India.”

Separately, Lanxess India says it has an applications laboratory for rubber chemicals at Thane and another for leather chemicals at Madurai.

Many multinationals that have established and expanded their presence in India are also making investments in China. “Two out of every five people on the planet are either Indian or Chinese, so both markets are significantly important,” says BASF’s Chandran. “Both countries are demonstrating high growth and there will be sufficient domestic demand for products and services for both countries to grow. China has made significant investments in its infrastructure. Lack of similar infrastructure is a hurdle for India’s manufacturing sector,” Chandran says.

Bayer says that India has become the second most important country for the company’s expansion in Asia, after China, but that Bayer’s investments, operations, and sales in China are considerably higher. “Bayer recorded sales of about €1.9 billion in China in 2008, which is almost five times Bayer sales in India in the same period,” Bayer says. “The scale of investment that Bayer has undertaken in China, in particular with the Bayer MaterialScience investment of €2.1 billion in Shanghai, is not yet foreseen in India. The general market size in India is still well below the market size of China in all relevant industries. At the same time, India has substantial potential to develop and Bayer is committed to growing its business in India. Bayer is pursuing aggressive organic growth strategies in all its subgroups through the introduction of innovative products and increased market penetration; investment in production facilities and R&D capabilities; and joint ventures and merger and acquisition strategies in specific business areas,” Bayer says.

Further details of the expansion plans were not disclosed.

Dishman says that India has certain key advantages over China. “Labor costs in China and India are mostly comparable,” Pluim says. “But on the east coast of China, labor costs and overall costs of production have gone up tremendously. And India has a huge advantage over China because of its English language skills, and this is very important for international companies. English language skills are improving in India but it will take at least 10-15 years to become comparable,” Pluim says.

Clariant considers India and China to be attractive investment locations because of their fast-growing economies. “China may seem more attractive due to its infrastructure growth, but India has several established industries and a rapidly growing domestic market,” Palm says. “In the case of Clariant’s leather chemicals business, we have experienced significant growth following the transfer of production to India from two plants in the U.K., which were recently shut down. This has made Clariant’s Indian business a major exporter of these products to Europe and Asia, including China. In our industry, the size of the domestic market, availability, supply possibilities, and the cost of a number of important raw materials are more significant than simple geographic location.”

—DEEPTI RAMESH

Dow Corning expects to grow its revenues in India at twice the rate of domestic GDP over the next five years.