

Chemical Weekly: Oct 5, 2004

Almost 30% of our export turnover is contributed by businesses that are on long-term contracts



More and more progressive Indian chemical companies have begun to chart success stories in the international market. Recently, Deepak Nitrite Ltd. (DNL) crossed the Rs. 100-crore turn over mark from its international business for the financial year 2003-04.

It has been a remarkable transformation for DNL in the past few years - from a commodity oriented bulk volume product company focussed on the domestic market, to a speciality & fine chemicals company catering to leading multinationals worldwide.

Recently, Chemical Weekly got an opportunity to interact with two leading architects of this transformation, **Mr. Deepak Mehta**, Managing Director, and **Dr. Suresh Gore**, President. During this free-wheeling discussion, they dwelt at length on their successful export strategies acquisition activities and future plans.

Excerpts from the discussion:

**Deepak Nitrite's emphasis on fine chemicals seems to be paying off and exports now account for a significant portion of sales.**

**What were the factors that propelled the strong emphasis on fine chemicals and exports?**

**Deepak Mehta (DM):** Before import duties started to come down in India, our company like most other domestic manufacturers, focused on developing import-substitute products, with less emphasis on cost. But with lowering of trade barriers and increase in competition from international manufacturers, we decided that the best way to counter this competition was to get active in the global market, by making niche market products.



We examined every product that we were manufacturing to see if we could convert it into niche products. For example, we were making intermediates for some basic dyes used for making colours for Holi or for colouring turbans in North India. We started converting these intermediates into products that were much sought after for very high-end speciality purposes, like speciality colours for colour faxes, etc. We worked on developing abilities to make these kinds of fine chemicals, using our present intermediates as base.

Whichever fine chemicals we chose, we first chose our competitor. We ensured that we are pioneers and did not have any existing competitor in China or India. We didn't mind

having competitors from developed nations, like Japan or Germany. We chose those niche products, which would give us long-term continuity of business opportunity. So that's how our foray into fine chemicals took place.

**Dr. Suresh Gore (SG):** Deepak Nitrite has long been known for its quality culture- we were among the first in India to get ISO certification. We also had strong in-house technical talent. When duties began to fall and competition in the market became more intense, we thought of looking at this as an opportunity for entering newer markets, rather than fighting competition on domestic grounds. Entering the international market was the natural choice for a company like ours. Having the right business practices, talent and quality culture. It was not as if we were ignoring the Indian market, it was just to get more value for our efforts.



**What has been your strategy in the export markets? Is it opportunistic or is it tied to one or more customers by way of long-term or medium-term contracts?**

**SG:** We realised that it would be in our long-term interests, if we tied up with customers of the right size for long-term contracts. To begin with, we had process expertise in nitration, oxidation, solid phase catalysis, etc. Initial customer interest was naturally directed at one or many of these processes. Based on this process expertise, we went forward step by step. This approach helped us and today those early seeds have blossomed into businesses worth Rs. 20-30-crore with each customer. Another policy, which we followed right from the beginning, was in trying to reach the user directly. So, today almost 95 of our exports are directly to the user. Trading houses or distributors are rarely involved. This way we understand our customers better and are able to service them better. Therefore, the four-five major customers who were with us 8-10 years ago are still with us today - now we might be servicing them on a different product. We hope to add one or two such relationships every year.

**DM:** Almost 30% of our export turnover of Rs. 110-crore is contributed by businesses that are on long-term contracts. While these are yearly contracts, the relationships are such that we are confident of evergreen contracts. We have been able to establish relationships with customers such that we even make commitments to keep on improving and bringing down costs over a period of three-five years. Long-term contracts helps us in logistics planning, strategising, working out similar tie-ups for our inputs and also gives us a base for providing long-term benefits to our customers.

**When you evaluate export opportunities, is it always in response to the customers' needs or is it initiatives you take on your own?**

**DM:** It is both ways. If we have certain very important intermediates that branch out into very high value pharma- or agro-intermediates then we would certainly look at finding customers for those, knowing fully well that in those products perhaps we could be number one or two in the world.

At the same time, our long-term relationship with all of the major international companies also provide us with opportunities, as these companies would prefer to source new products from Deepak after having satisfied themselves with the few products that we already supplied to them.

So the relationship has worked both ways We are supporting few major giants in the agro and pharma business and we believe that bulk of our growth would come from these companies. At the same time, with the help of new products developed at our R&D centre, we wil still look at almost 30-40% of our exports to new customers.



**You have manufacturing facilities in various places — is there any plan to consolidate these operations? Are any cost savings possible?**

**DM:** Rather than looking at rationalising locations, we have been looking at rationalizing businesses at each of these locations. Like for example, some of the business that we are doing at Roha we may want to rationalise them and bring them to Vadodara. Things we are doing at Pune, we might plan to shift to Roha and so on.

All these locations have resulted more out of wanting to grow quickly into picking or certain strengths, rather than developing them within. Now, as we look at merging some of these strengths together to get greater economic advantages, we are finding that there would be good opportunities of swapping some of these businesses from one site to another. Some of the product portfolios have already been exchanged among different sites.

**While on the subject of facilities, one of your acquisitions — Sahyadri Dyestuffs — is in the heart of Pune city. What are your plans for this unit?**

**SG:** Sahyadri Dyestuffs was put up way back in the early sixties and at that time it was outside Pune city limits. We acquired it in the mid-eighties and today it manufactures intermediate chemicals for colourants and imagine,chemicals. As for being located within the city,we will examine some options. After sometime,the Sahyadri site could become a good R&D set-up to attract technical talent, since it is located in close proximity to National Chemical Laboratory and new R&D centres coming up near Hinjewadi. So we might retain it in a different form.

Some of the city issues — like being within the octroi limits — also have its commercial competitiveness aspects. But we are continuously evaluating the future.

**How has your other acquisition — Aryan Pesticides — fitted into the scheme of things?**

**SG:** Contrary to name of the company, Aryan Pesticides never made any pesticides. The problem with Aryan was that they had erected capacities, but had not properly tied up the market. so they were always under-utilised. Aryan was one of our customers for

nitrochlorobenzenes, methanol and nitric acid. So we were familiar with Aryan and when we saw such a company tottering and not coming out of the red, we thought of acquiring it. When we looked at their portfolio, we found that many of their customers or potential customers were already in our fold. So we saw tremendous marketing synergy in the acquisition. Apart from good customer fit and raw material synergy, we realised that in the particular belt of Maharashtra, where Aryan was situated, big educational institutes were coming up which meant availability of a tremendous pool of technical talent.

So people, raw material and customers were the three drivers for acquiring Aryan and we have been effectively utilising these to our benefit.

**At this point of time, do you see the need to augment resources in terms of capacities, either through organic growth or through acquisitions?**

**DM:** I think what we really need is to augment our research capacity — strengthening the R&D base still further and adding more groups, which work on additional products. With the number of manufacturing sites we have right now, I believe we would be better off focusing on getting the maximum value out of these sites, rather than adding any new sites, unless we come across some synergistic businesses, which need us to look at different sites.

**What are your plans for the domestic market? With exports on the upswing, are there any plans to lessen emphasis on the local market and concentrate fully on exports?**

**DM:** I think we need the Indian market as much as we need the export market. In the long term, India will continue to be important from the point of view of value-addition. Today, almost 40% of our turnover is contributed by exports. We may be able to push the figure to around 50-55%, but being in the field of intermediates, Deepak would always be significantly large in the domestic market also.

Deepak has one of the largest numbers of end-product customers. We see a tremendous opportunity in the field of intermediates also. So it would be prudent to ensure that we are in both the domestic as well as export markets.

**The dyestuff industry is an important end use segment for your products. This segment has seen its ups and downs. What growth prospects do you see in this segment?**

**DM:** To a certain extent, the dyestuff market has been showing resurgence in growth, particularly in the exports market. But the growth prospects would depend on how the textile policy evolves and whether we are able to create much larger domestic market for dyestuffs.

In terms of competing with China, which has put up huge capacities, India can only be number two in the dyestuffs exports market. If our textile market grows then there is good chance of our internal consumption going up.

However, compared to dyestuffs, I feel there is good potential for growth in pigments and

the printing inks businesses as more and more publishing companies are being set up in India — for our own requirements and for targeting the international markets. We do face a great challenge in this area from China, as it is also doing the same thing. But if one goes by the amount of investments in India in setting up printing presses and publishing activities, particularly in South India, businesses in printing inks and pigments will continue to grow.

**What are the main issues and challenges facing the industry that need immediate attention?**

**DM:** One of our key concerns has been that somehow the Government has not yet recognised the need to give a level playing field to the chemical industry. ICMA has been supportive of Government's approach of reducing the import duties and bringing them in line with duties in the ASEAN countries. The only issue is that this should be done in tandem with making available to the industry certain inputs, which are in Government control, on similar terms, as is available in other ASEAN countries.

Take for example, power. Today, right from China, to countries like Malaysia or Thailand, the cost of power is around Rs. 1.8-2.4 per unit. In India, in the state of Gujarat, we are paying more than Rs. 5.5 per unit, which is more than 100% of what industries in other countries are paying. Even on an all-India level, power tariffs will be, on an average, around Rs.4 per unit. So, if we are paying 80% higher cost of power and the Government provides only 20% duty protection or even lower, then it is unfair.

Similar is the case of cost of money, with the prevailing high rate of interest for financing new investments, compared to international rates.

The Government has to introduce secondary reforms and then reduce import duties in tandem with secondary reforms. Otherwise, we are ending up giving our Indian market on a platter to international players.

A radical recommendation, which we are currently working out at ICMA, is that instead of country-specific Free Trade Agreements (FTAs), we examine if we can get into selective FTAs for products made in companies abroad, in which Indian companies have invested 50% or more in equity. If this happens, we will see a large number of companies in India looking at countries like the Middle-East, where basic inputs like energy are available at very low costs, for making intermediates and bringing them to India. In such an arrangement, 50% of the profits would come back to India anyway due to Indian investments.

**Where do you see Deepak Nitrite, say, in five years from now?**

**DM:** We see ourselves as a company, which is growing up the value chain, remaining in the field of intermediates, but at the same time a company, which has much more knowledge driven chemical businesses. We see Deepak Nitrite as a company, which has more than 50% of its exports tied up into long-term agreements. And we see Deepak Nitrite playing a very catalytic role in bringing more and more multinational companies into India.

**SG:** Five years from now, I see the consolidation of Deepak Nitrite's brand equity and emergence as a respectable world-class producer, which in its small way will help in building up the image of 'Brand India'.