



# Global Potential of Indian Aroma Chemicals

Key Drivers, Opportunities and Challenges

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# Position in Global F&F Industry



- ❑ USD 18.5 billion F&F Industry – A miniscule part of the Chemical Industry classified under “Specialty Chemicals”
- ❑ Pharmaceutical companies sell “Health and Wellness” we sell “Smell”
- ❑ Fragrance companies segregated into two
  - manufacturers of aroma chemicals and
  - non manufacturers/only users of aroma chemicals
- ❑ Rapid growth triggered by growth in economies of Asia and South America

## Position in Global F&F Industry



- ❑ Indian Aroma Chemical Industry – As yet a small but important part of the industry
- ❑ Aroma Chemical companies have grown hand in hand with large MNC's in fragrances
- ❑ Unlike fragrances, no investments by large fragrance houses in manufacture or aroma chemicals
- ❑ Most capacities larger than domestic demand.
- ❑ Ground rules laid : Indian Aroma Chemical companies cannot choose to remain insulated from global developments

# Global Trends – Key Drivers of Change



- ❑ Consolidation of customers
  - Reduction in overhead and marketing expenses
  - Greater efficiencies in logistics and procurement
  - Improved geographical reach
  - Market share consolidation and more efficient R&D spends
- ❑ **Declining interdependency** among the large fragrance companies for aroma chemicals
- ❑ Emergence of private label brands in US and Europe and now in India too! Cost pressures on fragrance manufacturers

# Global Trends – Key Drivers of Change



- ❑ Change in production strategy of large fragrance houses
  - ❑ Investments to build capacities of growing new specialty molecules
  - ❑ China has offered a better opportunity in comparison to India
- ❑ Factors hindering growth of aroma chemicals in India; lack of
  - ❑ Inadequate domestic demand
  - ❑ common infrastructure
  - ❑ raw material availability and quality
  - ❑ R&D infrastructure
  - ❑ Access to technology
  - ❑ Supportive regulatory framework
  - ❑ Consistent/adequate tariff structure
  - ❑ Access to low cost finance

# Global Trends – Key Drivers of Change



- ❑ India – moving towards manufacturing hub for Africa and Middle East for MNC's
- ❑ Regulation – Most talked about but least acted upon
  - ❑ Boiled frog syndrome
  - ❑ Aroma Chemicals : An integral part of fragrance creation
  - ❑ Strong self regulation with IFRA and RIFM
  - ❑ REACH – The mother of all regulations
  - ❑ Need for REACH and its impact

# Global Trends – Key Drivers of Change



- ❑ Demands by the market for ever improving fragrance performance at lower and lower costs
  - Substantivity : Perceptibility of odour throughout the use phases of a fragranced product
  - Stability : Ability to survive the chemical environments encountered in use.
  - Diffusivity : Ready perceptibility at a distance from perfumed object
  - Deodorancy : Ability to blend with malodor and reduce the perception of unpleasantness and total odor value
  - Signal product efficacy : Odour must be present after use of product and be consistent with reason for its use
  - Added Value : A secondary benefit (e.g. mood enhancement, insect repellence)

# Global Trends – Key Drivers of Change



## □ Environmental impact

- Making our chemical processes more environment friendly by reducing use of hazardous solvents and minimising effluents and toxic waste
- Movement of Chemical plants outside US and EU
- Lessons from China

# Challenges and Opportunities



- ❑ Opening up of chemical portfolios – More “Make or Buy” Strategies
- ❑ Skilled Manpower
  - Industry attractiveness v/s Pharmaceuticals, Petrochemicals and other specialty chemicals
- ❑ Quality
  - Business of smell not specifications alone. We need to sell smell to smell money!
- ❑ Raw material sourcing and availability
  - Could be more difficult
  - Proximity to raw materials; moving production across shores

# Challenges and Opportunities



- ❑ The China factor
  - Linking meaningful alliances
- ❑ Non-tariff barriers
  - Antidumping/antisubsidy
- ❑ Power crisis
  - Energy conservation and captive power generation
- ❑ New product development and selection
  - Operating in a minefield
  - Ability to patent our own molecules
  - Increased investment in R&D

## In conclusion..



- Paradigm shift in global aroma chemical industry
- Multidisciplinary approach needed
- Regulations like REACH to be addressed head on – Non compliance is not an option
- Developing a brand in international markets
- Increased focus on R&D
- Build global scale plants
- New emerging areas like biotechnology can be explored