CHAPTER 5

SWOT ANALYSIS OF THE DYESTUFF INDUSTRY IN INDIA

The international dyestuff market in the early seventies and eighties was dominated by manufacturers from Europe and America. The Germans were the unchallenged pioneers and dominant players in the world dyestuff market during this period. During the late eighties, however, there was a dawn of a new era and many other new entrants started making their presence felt. The SWOT analysis for dyestuff industry in India is as presented below.

STRENGTHS:

1. It is estimated that India can produce 1 lakh te of dyestuff per annum both in the organised and small-scale sector of the industry. The installed capacity of the industry is 1.2 Lakh te per annum. The Industry's higher installed capacity is a source of strength for exports. With the entry of small units in a big way and the availability of basic organic intermediates manufactured by HOC, NOCIL, IPCL etc, the Indian dyestuff industry has now gained a firm footing in the export markets. The Indian dyestuff industry accounts for 6.5% of world production. This shows that India is a competent player in the world market.

2. The dyestuff industry has made rapid strides during the
last forty years as a result of arrangements for collaboration with some of the leading firms in the world such as ICI, Bayer, Sandoz, Hoechst, American Cynamid and ACNA, Most of the multinationals have their manufacturing centers in India today.

3. Filtration and drying are the two main processes involved in the making of dyestuff. The equipment required are reaction vessels, filter press, air compressors, vacuum pumps, spray dryers etc. All these equipment are available indigenously. Most of the plants in the world today are large, but India has developed technology for small size plants too. Indigenously developed technology is capable of producing dyes of consistent quality with full efficiency.

4. Almost a hundred dyestuff manufacturers from India are exporting their various products to the USA, the UK, Singapore, the Middle East, the Far East, Japan etc which shows that our products are well accepted in the international market.

5. Technically, India is competent enough to manufacture all types of dyes which are in good demand in the world today. Quality-wise our products are accepted even in the developed countries. Few units have already got accreditation of ISO 9000 and many more are under the process of doing the same.

6) The end-user industry is located all over the country. During the initial
period of development, the textile industry was developed in the western belt of India only, but new units developed later on all over the country. The domestic market for the dyestuff expanded manifolds with the entry of many new firms in the textile industry.

7. Indian dyestuff manufacturers have successfully developed new technologies, import substitutes, value-added products and have successfully absorbed, adopted and modified the imported technology.

8) Most of the manufacturers in the organised sector have their primary and secondary effluent treatment facilities. Safety is a prime concern in the organised sector.

9. Well experienced and trained personnel are available for the industry. Hence skilled manpower is not a problem.

10. Large batch size plants are now being installed by many firms for better economy of scale.

11. The raw material and intermediates are easily available and most of the manufacturers located in Gujarat and Maharashtra are very close to the source of the raw material.

2. WEAKNESSES:

1. The dyestuff industry manufactures a wide variety of dyestuff
comprising basic dyes, disperse dyes, reactive dyes, leather
dyes etc. Since the demand for most of the dyes depends
largely on the textile and the garment industry, any change
in the production pattern of textile industry has an
influence on the demand pattern of the individual categories
of dyestuff.

2. A large technology gap exists in the areas of filtration,
drying, materials handling, automation, and pollution
control. Most of the plants and equipment required by the
industry are indigenously produced, but more often than
not, such equipment are not adequate or always state-of-
the-art in the nature.

3. Inadequate economies of scale, lack of vertical
integration in the manufacturing process and scant respect
to quality i e the cumulative effect of all this is slowly
placing us in a position of not being able to match the
international competition.

4. Low key negotiation in purchase of inputs and sale of
final product, growing pilferage during the transit to ports,
inadequate range of colours offered by a single supplier
undermine one's selling strength.

5. Since the dyestuff industry is of batch process nature
and production consists of various batch operations, it is
highly labour intensive. That creates a serious problem of manpower
management and labour relations.
6. India is still far away from being at par in quality with other nations. Indian firms also lack in terms of giving timely supplies to the customers. Nations like Japan, Korea and Taiwan who were late entrants in this field have raced far ahead of us. Improvement in this regard can only come through complete change in our mindset and outlook about quality and reliability. In the dyestuff industry the consumer's confidence in supplier's capability to offer consistent quality is one of the most important factors. International goodwill has already been impaired due to inferior quality shipped by Indian exporters. The main problem is that the small-scale sector cannot afford to import quality control equipments, which may sometime cost as much as the actual plant.

7. Poor attention to pollution control, excessive burden of excise duty on the organised sector, inadequate communication system followed by frequent port strikes have all added their bits to undermine the real potential of the industry.

8. The main weakness of the industry today is the high cost of inputs. The price of some of the basic chemicals like nitric acid, benzene are very high, just about double of its price in Europe. To compete in the global market India will have to bring down the input costs. The high cost of the raw material is mainly on account of administered prices and high indirect taxes.
9. The small units have certainly made a contribution to the availability of dyestuff however, they have not invested in environment and pollution control as is done by the organised sector. On one hand, the government acknowledges that manufacture of dyes can be dangerous under improper conditions, and its effluents are harmful to the environment if not properly treated before discharge. Yet, at the same time, the government continues to promote and encourage the manufacture of dyestuff in the small-scale sector, which cannot afford to invest a large capital for operational safety and environmental protection.

10. Most of the dyestuff manufacturers in the country suffer from lack of economies of scale. This is evident from the fact that while about half a dozen international giant dyestuff companies account for more than fifty per cent of the global output of twelve lakh tonnes, the entire Indian industry comprising of one thousand units contributes around only ten per cent of the world aggregate production.

11. Dye intermediates, viz H-acid, metanilic acid, vinylsulphone, etc are the basic inputs for dyestuff output. The intermediates, in turn, are petro-based, the important feed-stocks being benzene and toluene. As both of them, are naptha/natural gas-based, developments in the field of petrochemicals have a considerable bearing on the working of the dyes and intermediates manufacturing companies. Raw materials account for about fifty per cent of the total production cost. Though most of the inputs
required for the output of dyes are adequately available, the international price movements in petrochemicals exert discernible pressure on their prices thereby disturbing the costing of end-products i.e. dyestuffs.

12. Another aspect that requires immediate attention is inadequate investment in research and development, which hardly exists in case of small-scale units. The global multinational companies spend as much as five to ten per cent of their sales on R and D. This proportion is only one per cent or even less in case of some of the leading Indian dyestuff companies.

13. Dual Excise Duty System for Organised and SSI Sector affects the competitiveness of the organised sector.

14. The quality of Intermediates is not consistent and up to the standard and, therefore, affects the quality of final products.

15. The industry suffers from erratic supply of power, water etc and this results in the loss of productivity and adds to the cost of production.

16. The entry barrier in the industry is very low. The setting up of a small unit barely costs Rs. 1 crore, and this has resulted in the mushrooming of several non-viable units.
17. High tax evasion has given an unfair advantage to the organised/small-scale sector units vis-a-vis the tax paying organised sector.

18. The distribution channel is poor in the domestic market. This creates problem for both the manufacturers and the end-users.

19. Since the production of dyes is in batches, the varieties demanded by customer are not easily available in the market at any given point of time.

20. Price undercutting is too much and it affects the profitability of the firms.

21. Multipoint taxation affects the competitiveness of the industry in the international market.

22. In India there is no provision for patenting any new product developed by some manufacturing units and the firm may not get full benefit of its R and D efforts. This has resulted in poor investment in R & D.

23. According to industry sources, China has been giving a tough beating to the Indian exports both at the price and quality levels. It is said to have consignment transfer facilities operating from Europe and China. This enables them to cater to the European market as and when the buyer needs a particular product. The idea for setting up
similar facilities is meaningful to our industry, especially in view of Europe's economic merger.

3. OPPORTUNITIES:

1. Pollution and effluent problems have become the single biggest factor in restricting the growth of the dyestuff industry in the developed nations. Tighter rules and regulations, strict laws and high standard for treatment of the effulents have forced these countries to look for better opportunities without sacrificing their interest. If India has to capitalize on these opportunity, then there seems to be no harm in encouraging this industry in the country provided proper measures are taken for effluent treatment.

2. The current production of dyestuff and pigments is 1.2 million tonnes valued at 22 billion dollars which is expected to grow to 1.5 million tonnes, valued at 28 billion dollars by 2000 providing further scope for increasing their market share.

3. The current market share of developed nations like Europe, the USA, and Japan is 60% and developing nations like South Korea, India, and China is 40% and is expected to be 35% vs 65% on the basis of quantity and 50% vs 50% on the basis of value by 2000 AD.

4. The opening of the East European Market and the break-up of the USSR has led to major changes in exports to the
socialist countries. A vast consumer market has been thrown open. With its vast experience and wider production base, India can capture a large share of these emerging markets.

5. Apart from professional marketing, the need of the hour is disciplined marketing by the Indian manufacturers. It has to be realized that cutting prices at unrealistic levels only harms the national interest.

6. The world market for textiles is growing and, therefore, the demand for dyes will continue to grow in future.

7. Just around this time, the American companies followed by the Europeans later on, have decided to pull down the shutters on existing technology and hazardous pollutant dye units, opting for high technology, high-return industries instead. This has resulted in the supply shortage of certain categories of dye stuffs in the world market. The Asian countries moved in to fill the gap, thereby becoming the chief source of supply.

8. The per capita consumption of dyes in India is fifty gms per annum against the world average of 200 gms per annum in the developed countries. This shows wide gap of per capita consumption between India and the developed countries, hence ensuring good demand in future for it in the domestic as well as the international market.
9. The world dyestuff industry is worth Rs. 6,500-7,000 billion per annum. And the Indian industry accounts for only about five per cent. Even assuming that this proportion is enhanced for instances, about ten per cent by the turn of the decade, it means a total value of production of nearly Rs. 7,000 crore up from the current level of around Rs. 3,500 crore. On the basis that half of the value of production of the quantum exported, this means more than doubling of the present export level of nearly Rs. 1,500 crore. The task may appear stumpendous, but is certainly not an imposible one.

11. Multinationals who have to support the high cost of operations requiring high profit margins, find it non-lucrative to fight for a market share of many commodity items. This may result in a large percentage share in terms of quantity for the third world nations.

4. THREATS:

1. The liberalisation measures taken by the Government in India are being misused by people. Take the case of the rampant misuse of Advance Licence facility to import disperse dyes under the broad classification of "Synthetic Organic Dyestuffs," by exporters of leather goods, garments, carpets, cotton textiles and hosiery despite the fact that they do not find any application in these industries. In fact, disperse dyes can only be used for dyeing polyester blended yarns and fabrics. However the street-smart and
unscrupulous exporters find loopholes in the regime under the broad heading of "Synthetic Organic Dyestuff" as specified in the Advance Licences which enables them to import disperse dyes duty-free and dispose them of in the local market as replenished material. It is reported that about 150 MT of disperse dyes are imported into the country every month thereby severely crippling the demand for indigenous products for which adequate production capacity exists in India. The annual loss to the Government through such illegal imports amounts to few hundred crore.

2. Enterpreneurs get misled by a temporary upsurge in demand and high price. Take the example of mushroom growth of H-acid manufacturers. The going was good as long as the demand lasted, but once the Chinese stopped importing H-acid from India during the latter part of 1988 it gave a severe jolt to our H-acid industry. As a result, many H-acid manufacturers either pulled down their shutters or scaled down their production capacity. And with the onslaught of Chinese H-acid in the global market, our price and quality no longer remained attractive. With a production base of 8,500 MT vis-a-vis a consumption of 2,000 MT, it was not surprising that a fierce competition in the marketing sphere ensued amongst the Indian manufacturers. The small-scale manufacturers forced the organised manufacturers to scale down their price of H-acid. Indiscriminate production of H-acid led to its being sold at a lower price in the international market. For long term growth, we should have reasonable profits to take care
of today's effort and tomorrow's R and D as well as upgradation of technology. The small-scale sector in its eagerness to capture the market, is losing sight of certain profits and surpluses which should be set apart for future development. Free economy should not mean indiscipline or indiscriminate expansion of certain activities. In spite of many non-working plants at various locations, which closed during the depressed market, new H-Acid plants, were put up by the dozen at different location. This resulted in (a) bringing down the price in the international market due to an unfair international competition and thus the loss of foreign exchange, (b) Closure of many plants blocking public money, and (c) Wastage of national wealth by way of unused machinery land, resources etc.

3. In the domestic market, the textile industry is passing through recession, If this phase continues for a long period, it may pose a threat to the dyestuff industry.

4. With the increase in interests rates, the cost of the capital will be dearer. Therefore creation of new capacities, especially with high-tech plant and machinery is getting more and more difficult.

5. The cost of developing a new product, and its EPA registrations is going up steadily and the hope of recovering R and D investment through monopoly selling is thus becoming difficult proposition. Also, the technology is quickly adopted/developed by others or the product is
copied very soon thereby denying the leverage to the original inventor. This discourages the manufacturers in investing in R&D.

6. Withdrawal of the Duty Drawback Scheme may have an unfavourable effect on exports.

7. The biggest threat to Indian exports comes not only from the unorganized sectors but also from across the border. China has demonstrated that it can produce good quality dyes at affordable prices. In fact the prices offered by the Chinese are 30% lower in some dyes than those of the Indian. India will have to face this challenge in the international market. Also, the developing countries like Taiwan, Korea etc are becoming threat to the Indian exporters.

8. Our industrial structure is not geared to meet the international competition. After all it is only three percent of the world production. Surely, the other countries which account for ninety-seven percent of the share in this are not going to take it lying down. There are going to be certain pressures.

9. The plants in India are not of large economic sizes as per the international standards. Outdated technology affects the quality and profitability. Unless we update our technical knowhow as well as plant and machinery, it is going to be difficult for us to compete at the international level.
11. With the emphasis on a free and open economy, it is appreciable that imports are being liberalized and duties are being rationalized. The dyestuff industry in India will have to be globally competitive even to sell in the domestic markets.

12. Western nations and others are trying to take their share in the Russian and the East European markets. The western nations do have an upper hand as they are providing technical and financial aid and can expect a better deal in return.

13. The environment-conscious developed countries have recently taken drastic steps like banning the production of and pollution causing chemicals and the products derived from them because they are hazardous to health.

The opportunities and threats posed by the environment in any industry depend upon how the industry looks at those factors. With little bit of grit and determination, the threats can be converted into opportunities. Looking to the opportunities available to the industry, coupled with certain threats looming large, mainly depends on the vision of the industry as well as fiscal policies of the Government. In the absence of some positive and proactive steps, it may not be possible for the industry to capitalize even on certain opportunities that presently seem so apparent.