

Chasing the Market: Is India F&F Ready to Go Global?

The international and domestic F&F industries gather at the Biennial FAFAI Seminar to address the challenges and opportunities of this fast-evolving market

Mayuri Saini, Guest Contributor

“More international organizations are now aiming at India as a potential growth market,” says Anand Jhunjhunwalla, vice president of the 2010–2011 managing committee of the Biennial Fragrance and Flavours Association of India Seminar (FAFAI; www.fafai.org). Bringing together domestic and large multinational companies—the latter of which account for ~75% of the F&F market—the event presented a unique opportunity for the industry to gather and consider the future of this fast-growing economy, currently ranked 11th in the world by GDP. Increasingly, this developing market is factoring into the long-range plans of multinational F&F companies, which face rapidly maturing markets in the United States, Europe and Japan. The CIA Factbook (www.cia.gov) notes, “In 2010, the Indian economy rebounded robustly from the global financial crisis—in large part because of strong domestic demand—and growth exceeded 8% year-on-year in real terms.” These are numbers no industry can ignore.

The Seminar, which took place in late January at the Crowne Plaza in Bangalore, hosted 915 delegates, 73 of which were international, representing countries such as



Xavier Ormancey (Chanel Parfums & Beauté), Roy Herbst (IFF), Meghna Shah Karmakar (Vikram Aromatics) and Geemon Korah (Kancor Ingredients).



Top, from left: Rohit Seth (Seth Trading Co.), Kamlesh Hinduja (ABC Enterprises), Nivedita Assar (The Mohini Agency Indl. Fragrances (I) Pvt. Ltd.), Ashok Shah (Fine Fragrances Pvt. Ltd.), Madhu Thakkar (Pharm Aromatic Chemicals) and T.S. Gulhati (Sonarome Pvt. Ltd.). Bottom, from left: Rahuul Mehrrotra (Lalji Aromatics Pvt. Ltd.), Dilesh Shah (Mansukhlal & Brothers), Kamlesh Shah (Anant Fragrance Pvt. Ltd.), Paresh Khakkar (R.D. Corp.), Sanjay Harlalka (Nishant Aromas), Sunil Kumar Jain (Aroma Sales Corp.), Meghna Shah Karmakar (Vikram Aromatics) and Anand Jhunjhunwalla (AFF Aromatics Pvt. Ltd.).



T.S. Gulhati (Sonarome), chairman of FAFAI Seminar subcommittee, presenting a memento to Ramakant Harlalka (Nishant Aromas).



Xavier Ormancey (Chanel Parfums & Beauté) and Ashish Jhunjhunwalla (AFF Aromatics Pvt. Ltd.).



Ajit Vaze (Aarav Fragrances Pvt. Ltd.) and Alain Frix (Renessenz).

France, Spain, Indonesia and the United States. FAFAI, founded in 1949, represents manufacturers, dealers and traders who serve the flavor and fragrance industry with compounded products, aroma chemicals, essential oils and extracts, and associated services.

"This is a platform to meet, interact, forge relationships and exchange knowledge," says Nivedita Assar, secretary of the managing committee.

"The number of international participants is increasing," adds Jhunjhunwalla.

International, Domestic Players

The event featured more than 60 stalls sponsored by global and local companies such as Givaudan India Pvt. Ltd., Charabot SA, Karnataka Aromas, Bontoux SA and SH Kelkar Ltd.

Symrise India Pvt. Ltd. hosted live demonstrations including those that showed how fragrance molecules work in shampoos. Takasago, meanwhile, grew its presence at this year's event, a reflection of the inroads the company has been making into India in the last two years. Noting the key lessons Takasago has learned along the way, the company's sales manager, Gabriel De Gea Diaz, says, "Price is a key element in India. It is an important reference point to remember."

"This is one of the major markets where business is growing, the volumes are clearly growing; it looks like a dream," says Givaudan's Paul-Erwan Camenen who handles global sales and marketing for ingredients. While growing a business in India may have its own set of challenges, he shrugs off the difficulties: "It just keeps us running faster."

The Upside and Downside of the Essential Oil Trade

While it was obvious from their presence at the FAFAI event that the top global companies have been growing their base here, business in India is not only about big corporations. The personal touch of small and medium enterprises remains significant, especially in terms of essential oils.



Rohit Seth (Seth Trading Co.), Yogesh Dubey (Rakesh Sandal Industries), Nagraj Vemilkar (Padmini Aromatics), Ashok Shah (Fine Fragrances Pvt. Ltd.) and Anand Jhunjhunwalla (AFF Aromatics Pvt. Ltd.).



Present at a seminar session on the last day were Ashish Jhunjhunwalla (AFF Aromatics Pvt. Ltd.), session chairperson Parag Satoskar, Rohit Seth (Delhi Seth Trading Co.) and Nitesh Gulhati (Sonarome Pvt. Ltd.).

Petrus Arifin, owner of PT Karimun Kencana Aromatics of Indonesia, has regularly attended FAFAI events and so has a unique perspective on the regional industry's evolution. Arifin's company had a turnover of \$30 million in 2010 and, in his estimation, accounts for approximately 35% of global patchouli supply, with the United States as his biggest market. He explains that he has been doing business in India for the past 40 years, but says that business here has become much easier in the last few years: "It [became] easier after India and Indonesia made an export agreement in 2010. Communication has been one of the key factors."

To illustrate, one of Arifin/PT Karimun Kencana Aromatics's main distributors, Sushil Bhatia, CEO of Eastern Agencies Aromatics Pvt. Ltd., has observed the growing importance of patchouli in India, which has experienced large demand from, among other applications, the chewing tobacco (*gutka*) industry. "The growth has been both in terms of value and volume, spurred by an overall perfumery and market growth," he says.



Ramakant Harlalka (Nishant Aromas).



Kedar Vaze (SH Kelkar & Co Pvt. Ltd.).

Alain Frix, Renessez's sales and marketing manager for EAME and India, also remarked on the fast-growing essential oils market in India. "The essential oil market is very fragmented," he says. "This may be a threat to the industry. Another threat is that the farmers are more incentivized for food production. A system that regulates the availability and pricing of essential oils would be very helpful—there is a lack of initiatives to do collective work. The industry needs to be strong to address all these challenges."

A Multigenerational Industry

FAFAI has always represented a melting pot of generations—many of the traders and manufacturers have been in the business for several generations. The kaleidoscope of both traditionalism and change was particularly apparent at the event. The younger generation has benefited from the expertise imparted by its elders and has begun marrying this with a more global approach, an openness to technology and innovative methods, new molecules, and a more symbiotic relation with other industries.

Kedar Vaze, a director of SH Kelkar, points out that the way his \$110 million (turnover, as of December 2010) company is changing is similar to the way that a multinational giant such as Firmenich has changed, bringing in some outside management even as the family continues to hold a strong portion of control. His father, Ramesh Vaze, a director at SH Kelkar, discusses how things are changing: "In India there has been an upward integration. We have developed a number of products in India and have a very strong focus on R&D." Both generations of Vazes make it clear that the company is pursuing significant growth, which has accelerated at well over 20% per year, in order to secure a leading position in the domestic market and become a global player.

The Future of the F&F Industry

Norbert Richter, senior vice president, global business unit, aroma chemicals, Symrise, presented the Seminar's keynote address, observing that the future of the flavor and fragrance companies would ride on trends for health and wellness. He added that the key to the

future would also be led by a convergence of the cosmetics and pharma industries with traditional flavor and fragrance products via functional ingredients. In addition, he emphasized the importance of producing sustainable products aided by white biotechnology—microorganisms, enzymes and other natural systems; catalytic chemical reactions that have a "maximum yield and minimum emissions;" and modern chemistry for "dream reactions."

Ramakant Harlalka, director of Nishant Aromas, outlined consumption patterns for essential oils in the Indian market. Approximately 60% are applied in the sector of *pan masala*, an herb seed and nut mixture popular in the country, and *zarda*, a flavored tobacco product, he said. About 20% are used in conventional flavors and fragrances, Harlalka added. Meanwhile, he said, incense fragrances contribute to a huge demand for essential oils, which total approximately Rs. 6 billion (\$133.86 million) per year. Harlalka cited an ITC report (www.itcportal.com) that values the traditional Indian incense market at Rs. 24 billion (\$535.47 million). That market is growing at 10% per year, boosting the growth of domestic ingredient suppliers. Harlalka added that the global value of the spice and oleoresin market is estimated at Rs. 16 billion (\$356.98 million). Noting that India has historically been a leading user, producer, exporter and importer of spices, Harlalka said that India's share in the world trade of essential oils and oleoresins is close to 52%.

"This market, to a certain extent, has been responsible for bringing India into the race for globalization," he commented, adding, "Today India is a forerunner in the production of Iso E Super type compounds, contributing close to 44% of the global production. India has been a very strong player in the production of the basic raw materials of benzyl derivatives, producing close to 70% of global demand," he claimed.

Rohit Seth, joint secretary of the FAFAI managing committee, spoke about the challenges faced by small and medium enterprises and family managed businesses in India's F&F industry. He raised some tough questions about the education and training of future of Indian

perfumers and flavorists and touched on the need to modernize according to the needs of the day. “I believe that in our industry 99% of the companies are family managed,” said Seth. He added that these smaller businesses could mitigate many of their problems by:

- Enhancing access to new technologies to become more competitive in global markets;
- Supporting the formulation of appropriate national policies and programs;
- Building technological capacity; and
- Increasing knowledge flow and technology databases, enhancing R&D, and increasing inter-firm sharing.

Seth cautioned that, according to statistics, just 13% of family businesses survive to the third generation and only 4% go beyond.

Ashish Jhunjhunwalla, business development manager for AFF Aromatic Pvt Ltd., spoke about branding in the fragrance industry and the role of instrumentation, innovation and R&D—all key steps facing the Indian F&F industry at this time. With many of the firms in the industry centered around families, corporate branding is a concept that is just beginning to be applied. He shared various examples of how F&F companies around the world have successfully used corporate branding as their strategic marketing tool. He also explained how FMCG manufacturers across the globe are using innovative technologies developed by F&F companies for competitive advantage. He said that it was crucial to implement total quality management within an organization, even for traders and agents, and emphasized that R&D activities carried out at any level can potentially generate new business opportunities.

Nitesh Gulati, director of Sonarome, focused on the trend toward consolidation in the F&F industry worldwide and its impact on India. While the global market is estimated to be ~\$20 billion with an average annual growth rate of 7–10%, the revenue contribution from the top 10 companies has grown from 65% in 1999 to an estimated 75% in 2010, he said. Of this amount, approximately 55% of worldwide revenue comes from the top five companies. He pointed out that these companies have made substantial investments in the BRIC (Brazil, Russia, India and China) countries. “India is the jewel in the [BRIC] crown,” he said, “because of its widespread use of English, its judicial system, its easy availability of raw materials and an educated workforce. However, its challenges include corruption and poor infrastructure.” Gulati added that the challenges most companies seeking to acquire an Indian company face include dealing with family owned businesses with strong emotional ties, unrealistic expectations of valuation, official and unofficial business, scale, and a resistance to international regulations such as standards issued by the International Fragrance Association. Looking ahead, Gulati added that India would continue to see an influx of known and

unknown companies entering the F&F space and that these would skew strategically toward the raw material space. He also predicted that the adoption of international regulations would help facilitate consolidation and new market entrants.

The Role of FAFAI in a Growing Indian F&F Industry

There were many positive suggestions about the role FAFAI could play in shaping the industry. R. Guru, chairman of the NR Group of Industries, said that while the seminar was about the future of the industry, the mindset of the government, particularly that of the bureaucracy, was closed and stuck in the past. “If FAFAI can change that, it will be a big achievement,” he said. Guru added that it was important to understand that the fragrance industry was a rich industry that supported a large work force. And, he said, markets were shrinking, and along with them the bottom line in terms of percentages. He continued, saying that government regulations were key to progress and that FAFAI had a role to play to change these. Finally, he said, the choices available to the consumer have increased substantially, as has the consumer’s awareness of natural products.

Kedar Vaze’s presentation suggested that FAFAI could help ensure more transparency within the industry and governments around the world. Collectively, with one voice, the industry and FAFAI could address the relevant global testing protocols and help to ensure that consumers can make more informed choices, thereby avoiding the paranoia resulting from a lack of information.

Is There Growth Ahead?

Several of the visiting delegates made incisive observations. As Benoit Lemont of Biolandes noted, “Growth is happening well, but looking ahead, India should look at how it could sustainably produce chemicals and other molecules.” Yoshiya Ikenouchi, vice president of sales, fragrances and aroma chemicals (Japan), global chemical business, Kao Corp., added that the total consumption of aroma chemicals was increasing and adding more value: “We started from scratch in 1987, so the growth for us has been tremendous. Business has been recovering since the second half of last year; India was relatively less depressed than the other countries. The BRIC countries are important not only as buyers of products, but also in terms of production.”

Overall, most of the visitors and presenters agreed that the market is growing; it was a good time to look at the future more constructively. As Ashok Shah, president of the FAFAI managing committee, observed, “The industry is now taking giant leaps forward and is now ready to leave its mark on the global level.”

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