

US firms cut fracking investments, guar gum exporter Vikas takes a hit

India's second largest exporter of guar gum is idling 40% of its capacity and sees bleak future ahead

Prabhudatta Mishra 

   Send

11

2

1

6

0

Tweet

Share

+1

Share

Comments

Subscribe to: ☒ Daily Newsletter ☒ Breaking News

Enter email

SUBSCRIBE

Editor's picks



Will the elephant overshadow the dragon?



Infosys' innovation push off to a slow start



Allowing FDI in retail is a desirable way to proceed: Arvind Subramanian



Inside the AIIMS ecosystem



A shale oil drilling happening in Texas. Photo: Bloomberg

New Delhi: A big bet on the US fracking boom is coming back to haunt India's guar industry.

Orders for guar gum—used to extract shale oil and gas—are drying up as US companies cut investments following the plunge in crude oil prices. For **Vikas WSP Ltd**, India's second-largest exporter, that's meant idling 40% of its 140,000 metric ton capacity, a sign of industry stress.

"It's going to be very difficult for the guar industry to survive the current crisis," Vikas' MD **B.D. Agarwal**, based in Rajasthan, said in a phone interview on 28 January. "The situation is very bad. We neither have control over it, nor can we predict what's in store."

Demand for guar gum has roughly halved, forcing some factories in northern India to shut, Agarwal said. The industry's woes in India are just one of the ripples spreading through the global economy from crude's drop to a six-year low, a slide that's helped haven assets such as US Treasuries



Narendra Modi taps public in battle over a new land law

while hurting the currencies of oil exporters such as Russia.

India is the world's largest producer and supplier of guar gum, which is used to blend materials in hydraulic fracturing to unlock oil and gas from shale formations. A fracking boom in recent years set the stage for the glut that's contributed to crude's 48% slide in the past year.

'No Demand'

Vikas invested in two new factories in 2012 and is now depending more on sales to the food industry.

The company was one of many Indian producers that expanded capacity in 2012 and 2013 after demand surged from users including **Halliburton Co.**, the world's largest provider of hydraulic-fracturing services, said **Girdharilal Sarda**, president of the Guar Gum Manufacturers Association of India.

"When there is no demand, we have to cut our production," Sarda said by phone in Mumbai on 6 February. "Now it seems a mistake to have expanded capacity, though at that time it made a lot of sense. Before one year, no one was predicting crude prices to reach this level."

US crude production has jumped almost 70% in the past five years, adding almost 4 million barrels a day to global supply, and that has affected prices. West Texas Intermediate, the US benchmark crude, fell from \$107 a barrel in June to less than \$45 last month. More than 30,000 layoffs have been announced across the industry as companies reduce budgets, according to a tally by *Bloomberg News*.

Price Crash

The drop accelerated when the Organization of Petroleum Exporting Countries (Opec), whose members control about 40% of global oil production, voted in November to maintain output in an effort to protect its market share.

"We have seen buyers of all sorts of consumables, like guar, putting new purchases on hold over the last couple of months, as they try to understand how the oil price fall is going to play out through the supply chain over the next six months," **Alexander Robart**, a partner at Houston-based **PacWest Consulting Partners Ltd.**, said in an e-mail. "Purchases will resume eventually, but at a lower level to support the 'new normal' activity levels."

Prices of guar gum, extracted from the seeds of a leguminous plant grown in India, Pakistan and the US, have crashed to about ₹9,240 (\$149) per 100 kilograms in Mumbai from a record ₹95,920 in 2012, data from the National Commodity & Derivatives Exchange show.

Futures for delivery in March tumbled as much as 5.6% to ₹9,060 per 100 kilograms on Tuesday, the lowest level for the most-active contract since May 2011. Trading in the commodity was banned in March 2012 after prices jumped ninefold about in four years before resuming in May 2013.

'Just Surviving'

India accounts for more than 70% of the global guar seed production, which is also an ingredient in food emulsifiers, additives and thickeners, according to the Multi Commodity Exchange of India Ltd. Farmers in Rajasthan produce 70% of the nation's crop.

With exports dwindling and production cut, Vikas expects sales to drop below ₹1,000 crore rupees in the year ending March from ₹1,040 crore rupees a year earlier, Agarwal said. Profit margins are falling and the company is "just surviving," he said. Shares of Vikas, which rose 13% in 2014, have retreated 29% this year to ₹13.54, compared with 3.1% gain for the benchmark S&P BSE Sensex index.

Exports of guar gum may fall to about 550,000 tonnes in the year through

March from 601,945 tonnes a year earlier, Sarda said. Shipments totalled 385,400 tonnes valued at \$956 million in the six months ended September, according to state-run Agricultural and Processed Food Products Export Development Authority data.

The slump in prices and demand may prompt farmers to switch from guar to cotton and lentils next year, Sarda said. The crop is planted from July and harvested from October.

“Tough times lie ahead for guar producers,” Robart said. “The massive oversupply and overcapacity in guar production facilities by a range of Indian market participants is going to leave a lot of guar producers in very tough financial positions and we will likely see bankruptcies that help facilitate consolidation.” **Bloomberg**