



Make in India

MANUFACTURING IN INDIA

Manufacturing Industry in India has gone through various phases of development over the period of time. Since independence in 1947, the Indian manufacturing sector has traveled from the initial phase of building the industrial foundation in 1950's and early 1960's, to the license-permit Raj in the period of 1965-1980, to a phase of liberalization of 1990's, emergpetitiveness. It has grown at a robust rate over the past ten years and has been one of the best performing manufacturing economy. Manufacturing sector contributes about 15% of India's GDP and 50% to the country's exports. The Manufacturing sector employed 58 million people (about 12% of the workforce) in 2008. By 2012, it is estimated, based on current economic projections, that this sector will employ a further 12-13 million out of nearly 89 million additional people who will enter the workforce. Studies have estimated that every job created in manufacturing has a multiplier effect, creating 2-3 jobs in the services sector. In a country like India, where employment generation is one of the key policy issues, this makes this sector a critical sector to achieve inclusiveness in growth.¹

Brief Overview

VISION

1. An increase in manufacturing sector growth to 12-14% per annum over the medium term.
2. An increase in the share of manufacturing in the country's Gross Domestic Product from 16% to 25% by 2022.
3. To create 100 million additional jobs by 2022 in manufacturing sector.
4. Creation of appropriate skill sets among rural migrants and the urban poor for inclusive growth.
5. An increase in domestic value addition and technological depth in manufacturing.

¹<http://www.cii.in/sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECVtuNsfVm32+poFSr33jmZ/rN+5>

6. Enhancing the global competitiveness of the Indian manufacturing sector.
7. Ensuring sustainability of growth, particularly with regard to environment.

STRENGTHS OF INDIAN MANUFACTURING

- India has already marked its presence as one of the fastest growing economies of the world.
- The country is expected to rank amongst the world's top three growth economies and amongst the top three manufacturing destinations by 2020.
- Favourable demographic dividends for the next 2-3 decades. Sustained availability of quality workforce.
- The cost of manpower is relatively low as compared to other countries.
- Responsible business houses operating with credibility and professionalism.
- Strong consumerism in the domestic market.
- Strong technical and engineering capabilities backed by top-notch scientific and technical institutes.
- Well-regulated and stable financial markets open to foreign investors.

POLICY INSTRUMENTS

FOCUS SECTORS:

- Employment-intensive industries like textiles and garments, leather and footwear, gems and jewellery and food processing industries.
- Capital goods industries like machine tools, heavy electrical equipment, heavy transport, earthmoving & mining equipment.

- Industries with strategic significance like aerospace, shipping, IT hardware & electronics, telecommunication equipment, defence equipment and solar energy.
- Industries where India enjoys a competitive advantage such as automobiles, pharmaceuticals & medical equipment.
- Small & medium enterprises.
- Public sector enterprises.

NATIONAL INVESTMENT & MANUFACTURING ZONES (NIMZ) **Annexure 1:**

- The National Investment and Manufacturing Zones are being conceived as giant industrial greenfield townships to promote world-class manufacturing activities.
- The minimum size is 5000 hectares (50 square kilometres) wherein the processing area has to be at least 30%.
- The central government will be responsible for bearing the cost of master planning, improving/providing external physical infrastructure linkages including rail, road, ports, airports and telecom, providing institutional infrastructure for productivity, skill development and the promotion of domestic and global investments.
- The identification of land will be undertaken by state governments. State governments will be responsible for water requirement, power connectivity, physical infrastructure, utility linkages, environmental impact studies and bearing the cost of resettlement and rehabilitation packages for the owners of acquired land.
- The state government will also play a role in its acquisition if necessary.
- In government, purchase preferences will be given to units in the national investment and manufacturing zones.

NATIONAL INVESTMENT AND MANUFACTURING ZONES IDENTIFIED UNDER DMIC:

- Ahmedabad-Dholera Investment region, Gujarat
- Shendra-Bidkin Industrial Park City near Aurangabad, Maharashtra
- Manesar-Bawal investment Region, Haryana
- Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan
- Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh
- Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh
- Dighi-Port Industrial Area, Maharashtra
- Jodhpur-Pali-Marwar region, Rajasthan

NATIONAL INVESTMENT AND MANUFACTURING ZONES IDENTIFIED OUTSIDE DMIC:

- Kuhi and Umred Taluka of Nagpur district, Maharashtra
- Tumkur, Karnataka
- Chittoor, Andhra Pradesh
- Medak, Telangana
- Prakasam, Andhra Pradesh
- Gulbarga, Karnataka
- Kolar, Karnataka
- Bidar, Karnataka
- Kalinganagar, Jajpur District, Odisha

SIMPLIFICATION OF REGULATORY ENVIRONMENTS

- Timelines will be defined for all clearances.

- Central & State governments to provide exemptions from rules and regulations related to labour, environment etc. subject to the fulfilment of certain conditions.
- Mechanisms for the cooperation of public or private institutions with government inspection services under the overall control of statutory authorities to be developed.
- Process of clearances by centre and state authorities to be progressively web-enabled.
- A combined application form and a common register to be developed.
- The submission of multiple returns for different departments will be replaced by one simplified monthly/quarterly return.
- A single window clearance for units in NIMZ.
- Ease in environment approvals.

THE ACQUISITION OF TECHNOLOGY & DEVELOPMENT

- The policy intends to leverage the existing incentives/schemes of government.
- A technology acquisition and development fund has been proposed for the acquisition of appropriate technologies, the creation of a patent pool and the development of domestic manufacturing of equipment used for controlling pollution and reducing energy consumption.
- The fund will also function as an autonomous patent pool and licensing agency. It will purchase intellectual property rights from patent holders. Any company that wants to use intellectual property to produce or develop products can seek a license from the pool against payment of royalties.

INCENTIVES

TRANSFER OF ASSETS:

- In case a unit is declared sick, the transfer of assets will be facilitated by the company managing the affairs of NIMZ.
- Relief from capital gains tax on the sale of plant and machinery of a unit located in NIMZ will be granted in case of the re-investment of sale consideration within a period of 3 years for purchase of new plant and machinery in any other unit located in the same or another NIMZ.

GREEN TECHNOLOGY & PRACTICES:

- 5% interest in reimbursement & 10% capital subsidy for the production of equipment/machines/devices for controlling pollution, reducing energy consumption and water conservation.
- A grant of 25% to SMEs for expenditure incurred on audit subject to a maximum of INR 1,00,000.
- A 10% one-time capital subsidy for units practising zero water discharge.
- A rebate on water cess for setting up wastewater recycling facilities.
- Incentives for renewable energy under the existing schemes.
- An incentive of INR 2,00,000 for all buildings which obtain a green rating under the IGBC/LEED or GRIHA systems.

TECHNOLOGY DEVELOPMENT:

- Incentives for the production of equipment/machines/devices for controlling pollution, reducing energy consumption and water conservation.
- SMEs will be given access to the patent pool and/or part of reimbursement of technology acquisition costs up to a maximum of INR 20,00,000 for the purpose of acquiring appropriate technologies up to a maximum of 5 years.

SPECIAL BENEFITS TO SMES:

- Rollover relief from long term capital gains tax to individuals on sale of residential property in case of re-investment of sale consideration.
- A tax pass-through status for venture capital funds with a focus on SMEs in the manufacturing sector.
- Liberalization of RBI norms for banks investing in venture capital funds with a focus on SMEs, in consultation with RBI.
- The liberalization of IRDA guidelines to provide for investments by insurance companies.
- The inclusion of lending to SMEs in manufacturing as part of priority sector lending.
- Easier access to bank finance through appropriate bank lending norms.
- The setting up of a stock exchange for SMEs.
- Service entity for the collection and payment of statutory dues of SMEs.

GOVERNMENT PROCUREMENT:

- The policy will also consider use of public procurement with stipulation of local value addition in specified sectors. These include areas of critical technologies such as solar energy equipment, electronic hardware, fuel efficient transport equipment, IT based security systems, power, roads & highways, railways, aviation and ports.

INDUSTRIAL TRAINING & SKILL UPGRADATION MEASURES:

- The creation of a multiple tier structure for skill development, namely:
 1. Skill-building among large numbers of a minimally educated workforce.
 2. Relevant vocational and skill training through establishment of ITI in PPP mode.
 3. Specialized skill development through the establishment of

polytechnics.

4. Establishment of instructors' training centre in each NIMZ.

EXIT MECHANISM:

- It envisages an alternate exit mechanism through job loss policy and a sinking fund or a combination of both.

INTRODUCTION

India's growing economy has offered domestic entrepreneurs and international players multiple opportunities to invest. The Government of India has realised the significance of the manufacturing industry to the country's industrial development and is taking necessary steps to increase investment in this sector.

According to a report by Mckinsey and Company, India's manufacturing sector could touch US\$ 1 trillion by 2025. There is potential for the sector to account for 25-30 per cent of the country's GDP and create up to 90 million domestic jobs, by 2025.

Many foreign investors have decided to invest in the country in the recent past due to low cost of setting up of plants and available manpower. For instance, Toshiba Group has planned to make India the design, manufacturing and export hub for its lighting business, and multiply the local headcount to design lights for planned smart cities airports, stadiums, highways, warehouses and factories, said Mr Yoichi Lbi, President & CEO, Toshiba Lighting & Technology Corporation.

Market Size

Business conditions in the Indian manufacturing sector continued to improve in October, 2014 fuelled by accelerated growth of output and new orders according to the HSBC India Manufacturing Purchasing Managers' Index (PMI) data. According to the PMI, manufacturing operating conditions in India rebounded from 51 in September 2014 to 51.6 in October 2014.

Electronics goods production in India is expected to touch US\$ 104 billion by 2020. The country's electronics market is anticipated to grow to US\$ 400 billion by 2020 and expand at a CAGR of 24.4 per cent during the period 2012-2020.

The domestic market size of the chemical industry is around US\$ 118 billion and it is approximately 3 per cent of the global chemical market, according to a report by Tata Strategic Management Group. It is highly diversified with more than 80,000 chemicals and currently accounts for 15 per cent of manufacturing GDP which makes it very crucial for the economic development of the country.

Investments

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- Hero MotoCorp has planned to invest Rs 5,000 crore (US\$ 785.79 million) in five manufacturing facilities across India, Colombia and Bangladesh, to increase its annual production capacity to 12 million units by 2020.
 - Kalyan Jewellers has raised around Rs 1,200 crore (US\$ 188.59 million) from Warburg Pincus in one of the largest private equity (PE) deals in the jewellery manufacturing segment in India.
 - A consortium of Chinese automobile companies has planned to make Gujarat's Sanand an electrical vehicle (EV) manufacturing hub. The consortium consisting of seven companies plans to set up the EV park at an estimated investment of US\$ 100 million.
 - Gulf Oil Lubricants India has entered into a partnership with Mahindra & Mahindra. Gulf Oil will now manufacture and supply Mahindra Genuine Oil under the brand name Mahindra M-Star Super.
 - Asian Paints has planned to invest Rs 2,400 crore (US\$ 377.14 million) to set up a manufacturing unit in Nanjangud in Mysore district, Karnataka. The 175 acre project has been

cleared by the State High Level Clearance Committee (SHLCC).

- Pidilite Industries Ltd has approved the acquisition of adhesive business of Blue Coat Pvt Ltd for a cash consideration of Rs 263.57 crore (US\$ 41.41 million). Blue Coat is a manufacturer of industrial adhesives and textile printing chemicals
- Minda Industries Ltd has announced a joint venture (JV) with Panasonic Corp to manufacture lead acid batteries. The manufacturing plant of the JV will be based in Uttarakhand.
- Honeywell Aerospace has signed a licensing agreement with Tata Power Co Ltd's strategic engineering division (SED), enabling it to produce Honeywell's Tactical Advanced Land Inertial Navigator (TALIN) in India.
- Danfoss India, a major player in climate and energy space, inaugurated its new manufacturing, research and development (R&D) and administrative campus, built with an investment of Rs 500 crore (US\$ 78.57 million), in Oragadam, Chennai, on November 5, 2014. The plant also includes a solar power plant which will generate 1 MW of electricity, sufficient to power 10 per cent of electricity requirements of the campus. Danfoss India, a part of Danish company Danfoss Group, stated that it is taking forward the national appeal to 'Make in India', through its focus on local manufacturing and R&D in the new campus. As part of this strategy, the company is planning to make India a manufacturing cum export hub for its regional subsidiaries and source products from local suppliers, thereby creating ancillary jobs.

Government Initiatives

The Government of India has taken several initiatives to promote a healthy environment for the growth of manufacturing sector in the country. Some of the notable initiatives and developments are:

The government has an ambitious plan to locally manufacture as many as 181 products India currently imports at a cost of at least US\$ 18.1 billion. The move could also help infrastructure sectors such as power, oil and

gas, and automobile manufacturing that require large capital expenditure and revive the Rs 1.85 trillion (US\$ 29.07 billion) Indian capital goods business.

To give its ambitious 'Make In India' programme the much needed atmosphere to succeed, the government is expected to come up with a separate set of labour laws governing the Micro, Small and Medium Enterprise (MSME) sector which forms the backbone of the manufacturing sector. The proposed new labour laws for the MSME sector will be applicable to industrial units that employ 40 or less in their workforce and will specifically address the needs of those who are employed in the small factories or manufacturing units.

Once implemented, the new labour laws will provide the ease to do business in India and will also help effectively manage labour unrest and industrial strife and lead to new entrepreneurs entering the manufacturing sector.

The Ministry of Micro, Small and Medium Enterprises (MSME) has signed a memorandum of understanding (MoU) with the International Labour Organisation (ILO) to support the Government of India's 'Make in India' programme.

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, has been awarded ISO 9001:2008 certification, demonstrating the Ministry's mission of promoting the growth and development of MSMEs with dedication and commitment.

In accordance with the Government's 'Make in India' initiative, the Department of Industrial Policy and Promotion (DIPP) has provided a major boost to the manufacturing sector by approving 33 applications. Clearance of these 33 applications and the deregulation of Defence product List excluding a large number of components from purview of industrial licensing will provide a major impetus to advanced manufacturing in Defence sector.

India has recently increased the cap on Foreign Direct Investment in defence manufacturing to 49 per cent due to which German firms are interested in high-end electronic manufacturing in India, according to Mr Ravi Shankar Prasad, Union Minister for Communications and Information and Technology, Law and Justice, Government of India.

Road Ahead

The manufacturing sector in India is an attractive hub for foreign investments. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

The electronic system design and manufacturing (ESDM) industry will benefit from the government's Make in India campaign and is projected to see investment proposals worth Rs 10,000 crore (US\$ 1.57 billion) over the next two years, according to the India Electronics and Semiconductor Association (IESA).

The Indian chemical industry is also likely to touch US\$ 190 billion by the financial year 2017-18 on account of increase in demand of the chemicals from industries of various sectors.²

The Indian economy has reported rapid growth in the last two decades, transforming from primarily an agrarian economy to a services-driven one. However, despite the super-normal growth, India's manufacturing sector contributes 16% to the GDP; as compared to China's 34%.

The manufacturing sector in India continues to struggle, pulling down the country's overall growth. In 2013-14, the manufacturing sector's output declined by 0.2% (compared to overall GDP growth of 4.4%) — its worst performance since 1999-2000. Some of the factors affecting manufacturing growth include policy inaction in infrastructure development, stringent labour laws, barriers in land acquisition and inefficient labour.

Fixing infrastructure bottlenecks key to revival

Lack of adequate infrastructure has led to declining productivity and competitiveness of the Indian manufacturing sector. Power and fuel shortage, poor transportation infrastructure (road and rail) and congested ports are major challenges that manufacturers face. A truck in India

² <http://www.ibef.org/industry/manufacturing-sector-india.aspx>

covers 250-400 km per day as compared to 700-800 km per day in developed countries.

To facilitate infrastructure development, India needs to have a single point ownership across different ministries resulting in timely execution of projects. The country can look at China which has a centralized agency in National Development and Reform Commission (NDRC), which coordinates and monitors policy implementation carried out by local provincial governments.

Simplifying land acquisition procedures to aid manufacturing growth

There is an urgent need to simplify and introduce transparency in land acquisition procedures. India ranks a low 91 in ease of registering property, in the World Bank's *Doing Business Report 2014*,

Gujarat has led the way in reforming land acquisition policy, simplifying procedures and ensuring minimum direct government participation. Land allotment has increased four folds since 2010 and possession of land now takes just 45 days.

Flexible labor laws to increase productivity

In India, there are 47 central laws and over 200 different state laws that govern the employer-worker relationship. Liberalizing and simplifying these will be crucial in attracting investments and reviving the manufacturing sector in India.

Recently, Rajasthan government has proposed amendments to three major labour laws — Industrial Disputes Act, Contract Labour Act and the Factories Act. The amendment proposes that government's permission will not be required for retrenchment of up to 300 workers (current law allows retrenchment of up to 100 workers).

Focus on skill development — echoing Modi's mantra

By 2020, India will have 64% of its population in the working age group. But the existing annual training capacity in the country is only 4.5 million which is low compared to the required number.

Swift skill development of the Indian workforce can be achieved by adequately measuring the skill gap, acquiring requisite funding and integrating vocational training with school learning. Government's proposed NETAP program aims to enrol 200,000 apprentices annually into real time training at the workplace for the next 10 years. India currently has only 250,000 apprentices compared to China's 20 million and Germany's 3 million.³

Sectorial Overview

Aerospace and Defence⁴

- Aerospace and defence offset market opportunity crossed ~US \$500 Million annual value in 2010
- Market saw a growth of 78% (CAGR) during 2005-2010 and is forecast to grow at 11% CAGR during next 5 years
- Growing involvement of international players in Indian aerospace and the defence sector is creating opportunity for domestic companies
- OEM's and Prime contractors looking for capable and credible options to fulfill offset obligations
- International players receive leverage with established relations and experience
- International players benefit by participating in offset market by partnering with domestic companies for low cost manufacturing for both offset and other opportunities
- Government initiative to build indigenous capability is expected to drive the market

³ <http://www.ey.com/IN/en/Newsroom/News-releases/EY-revival-of-Indias-manufacturing-sector-time-is-now>

⁴ <http://www.indiamanufacturingshow.com/index.php/aerospace-engineering>

- Indian Defence budget, estimated at ~US \$32 Billion in 2010, is expected to exceed US \$44 Billion in next 5 years
- Total Offset opportunity is expected to surpass ~US\$12 B over the next 10 years driven by procurement plans

Until 2010, 10 offset contracts have been finalized

- There are 41 offset contracts worth more than US \$11 B in pipeline and at various stage of negotiation
- Total offset market for aerospace and defence is expected to be US\$11 B over the next 10 years (2011-2020)

Auto and Components

As India's economy continues to grow at a rapid pace, the automobile industry is a key beneficiary. The Indian automobile industry is currently experiencing an unprecedented boom in demand for all types of vehicles.

This boom has been triggered primarily by two factors:

- Increase in disposable incomes and standards of living of middle class Indian families estimated to be as many as five million in number
- The Indian government's liberalization measures such as relaxation of the foreign exchange and equity regulations, reduction of tariffs on imports, and banking liberalization that has fueled financing-driven purchases.

Industry observers predict that passenger vehicle sales will triple in five years to about one million, and as the market grows and customer's purchasing abilities rise, there will be greater demand for higher-end models which currently constitute only a tiny fraction of the market. These trends have encouraged many multinational automakers from Japan, U.S.A., and Europe to enter the Indian market mainly through joint ventures with Indian firms.

The main factors behind such growth are the increasing affluence of the average consumer, overall GDP growth, the arrival of ultra-low-cost cars,

and the increasing maturity of Indian original equipment manufacturers (OEMs).

Allowance of 100% FDI in Indian auto industry in 2002 made the industry easily accessible and attractive for the global players. Japanese, Korean, European, and American OEMs entered the Indian market and added more than 1 Million four-wheelers during 2005-06.

Indian 2-wheeler industry is the second largest in Asia after China. The production of 2-wheelers grew at a CAGR of 14.6% from FY2001 to FY 2006. In passenger car segment, most of the Indians still prefer fuel-economic compact cars, but rise in disposable incomes has opened the roads for luxury cars too in India.

Despite impressive growth, automobile penetration rate is still low in India. As India is an economically growing country, there exists a huge untapped growth potential for the automobile manufacturers.

Auto components sector reported an upturn in production for July - September 2014 vis-à-vis same quarter of 2013.

For the current quarter i.e. October - December 2014 also 75% respondents expect their production level to increase as compared to the same quarter of previous year. On an average the industry is expected to grow in the range of 6 to 8%. This has also been reflected in the order books of the respondents as more than 50% expect their order books to improve in October - December 2014 as compared to July - September 2014. On an average, the industry is operating at a capacity of 70% and 60% respondents plan to add capacity in the range of 10 - 25% over next six months.

Scenario seems to be somewhat same on exports front also with most of the respondents expecting higher or same exports level in both July - September 2014 and October - December 2014 compared to the corresponding quarters of the previous year. 60% of the respondents reported to be maintaining their average inventory levels in July - September 2014 quarter. Majority of respondents do not have any plans to hire additional workforce. A few plan to increase their workforce by approximately 10%. On an average the industry is getting credit at 13% interest rate but for some respondents cost of credit is over 15%.

The industry doesn't expect the manufacturing sector to worsen further in near future as most of them expect the sector to either revive or continue

to grow at the same level. The sector has suggested that following issues need to be addressed to revive industrial growth:

- Improved liquidity in the market
- Reduced interest rates
- Improvement of infrastructure
- Reforms in Labour laws
- Faster Implementation of GST
- Some of the significant constraints for the sector are high prices of raw materials, lack of skilled labour, and lack of domestic demand.

Automation and Robotics

The Indian automation industry is growing at an annual rate of 20 to 25 percent. With India's gradual integration with the world economy, automation will play an important role in bringing down the costs.

Besides costs, automation will also help increase productivity efficiency, aesthetics and delivery systems. Several international players are considering India as a development hub for automation products.

The Indian automation market has acquired the critical momentum to propel the instrumentation, control and automation industry to a higher growth trajectory. India has the right mix of process industry that provides excellent growth opportunities for the entire spectrum of automation products and systems.

With a gross domestic product (GDP) growth of around 7 percent, India has one of the fastest growing economies in the world, and India is moving steadily on the path of global integration. Amongst other leading indicators, India is witnessing foreign trade growth, rising domestic consumer demand, infrastructure growth, industrial revival, capacity expansion and a significant pick-up in manufacturing output and the capital goods sector. Realization is fast setting in that India's future cannot depend simply on being the "back office" of the world. Automation has a key role to play in facilitating this quest for being truly world-class and ensuring a "competitive advantage" for the Indian industry.

India, with large investments taking place in process industries, provides strong growth prospects for automation in both the near and long-term. The growing disposable income in the hands of almost a quarter of a billion people is generating a rising demand for a wide range of products. Manufacturers, lured by this opportunity, have created new production facilities in almost all vertical industries.

Because of this cycle of demand, investment and wealth creation, India is emerging as an economic growth engine. Manufacturers' search to gain sustainable competitive advantages leads them to extensively use automation.

Capital Goods

Half of the respondents reported same or lower level of production for July – September 2014 quarter vis-à-vis July – September 2013. The other half reported increase in their production. For the current quarter i.e. October - December 2014, 75% respondents expect their production levels to remain unchanged vis-à-vis October - December 2013. Half of the respondents have reported that their order books are not likely to see any improvement during October - December 2014 as compared to July - September 2014 quarter.

Currently, the capacity utilization in the sector as reported is hovering at 70% and for around 63% respondents the capacity utilization is either same or less than that of previous year. Around 75% respondents reported that they do not have any plans to add capacity in next 6 months. For 75% of the respondents, exports were either lower or same in July - September 2014 vis-à-vis the same quarter last year. For October - December 2014 quarter also only 25% respondents expect exports to improve as compared to October - December 2013.

Inventory levels are neither too high nor low and 62% respondents seem to be maintaining their average inventory levels. Around 90% respondents in this sector indicated that they are not planning to hire new workforce. Rest, reported plans of increasing their workforce by around 5%. On an average, the industry reported to be availing credit at an interest rate of around 12.5%.

Capital Goods sector is hopeful of recovery in manufacturing growth rate in near future as 63% respondents expect a revival in the sector. However, following suggestions have been proposed for faster revival of growth in the sector:

- Correction of Inverted Duty Structure
- Level playing field for local suppliers vis-à-vis imports particularly from China and Korea
- Investment friendly atmosphere and speedy clearances for infrastructure projects including power generation plants
- Lower interest rates
- Implementation of GST
- Reform in labour laws
- Faster land allotment for projects
- Increased competition faced from imports, lack of domestic & export demand and volatility in prices of raw material are some of the important constraints for the sector which are affecting its growth.

Cement and Ceramics

Most of the respondents expect their production levels to increase in October – December 2014 quarter as compared to the similar quarter of 2013. The increase is expected to be in the range of 5-12%. Improved outlook is also suggested by respondents' order books which are likely to improve or remain same in October – December 2014 compared to the previous quarter. Capacity utilization in this sector stands at 80%, which is same as that of last year for most of the respondents. And majority of the firms are not planning to add capacity in next six months.

Scenario is not very encouraging on exports front with most of the respondents expecting same or lower exports in October – December 2014 quarter vis-à-vis last year. For most of the respondents, inventory of finished goods for July - September 2014 was same as their average inventory levels. Majority of the reporting firms in the cement and

ceramics sector are not planning to hire new work force in the next three months.

The sector reported availing credit in the range of 12-14%. Majority of the respondents in the cement and ceramics sector believe that the growth rate of manufacturing is likely to revive in next six months. Following are the suggestions for the Government for faster revival of the sector:

- Investment in the infrastructure sector
- Faster approvals for projects
- Lower interest rates
- Ensure continuous power supply and fuel supply

Inadequate power is acting as the most significant constraint for the sector. Other issues which are affecting growth of cement and ceramics sector are high prices of raw materials, sluggish domestic demand, competition faced from imports, uncertain economic environment and lack of skilled labor

Electronics and Assembly

The Electronics industry promises the maximum growth potential amongst the others.

The Indian Electronics industry constitutes less than 1% of the global market. However, demand for these products is growing rapidly and investments are flowing in to augment manufacturing capacity.

- India remains a major importer of electronic materials, components and finished equipment amounting to around \$20 billion (Rs84,000 crore now) in 2007. The country imports electronic goods mainly from China
- In the last four years, production of computers has grown at a compounded annual growth rate (CAGR) of 31%, the highest among the various electronic products in India. This has been followed by communication and broadcast equipment (25%), strategic electronics (20%) and industrial electronics (17%).

- The consumer electronics segment, which has grown at a CAGR of 10% in the last five years, includes a wide range of products such as DVD, VCD/MP3 players, television sets and microwave ovens.
- The growth in demand for telecom products has been high, with India adding two million mobile phone users every month, which is one of the main reasons for the growth in production of electronic goods. This growth is expected to continue over the next decade, too.
- The government has identified electronics and IT hardware manufacturing as one of the thrust areas for development. A special incentive package scheme (SIPS) was announced in March 2007 to attract investments for semiconductor fabrication and other micro and nanotechnology manufacturing industries in India.
- In the case of exports, the largest share was taken by electronic components, with 47% of total electronic exports. Exports of electronic components have grown at a CAGR of 25% in the last five years

Energy and Environment

India's power market is the fifth largest in the world. The power sector is high on India's priority as it offers tremendous potential for investing companies based on the sheer size of the market and the returns available on investment capital. Almost 55 per cent of this capacity is based on coal, about 10 per cent on gas, 26 per cent on hydro, approximately 5 per cent on renewable sources, about 3 per cent on nuclear and 1 per cent on diesel.

In the past five years, there has been a much greater emphasis on transmission and distribution reforms.

The government aims to provide "power to all". To achieve that promise, it will have to add as much as 1,00,000 MW of generation capacity, cut AT&C losses substantially to below 20 per cent, rationalize tariffs and ensure that average revenue realization is greater than the cost of production. It will have to continue to push the process of reform and restructuring and ensure greater private participation, in every segment.

In the past few years, there has been considerable growth in power plants based on renewable sources of energy. The Plant Load Factor (PLF) of generating plants has improved consistently over the last 10 years. The share of thermal power as a proportion of total power generated has decreased from 71 per cent to 66.3 per cent in the last decade. The share of hydro has increased to 26 per cent from 25.7 per cent.

Of the fossil fuel supplies, there is delivery constraint with respect to gas. A number of gas plants today are running at sub-optimal plant load factor (PLF) levels due to shortages. The government has decided not to embark on new projects that rely on gas. It is feared that supply shortages can disturb the capacity addition plans, reduce PLFs, as the rising crude prices have led to firmer naphtha and natural gas prices.

Industrial Engineering

The Industrial Engineering sector is the largest in the overall industrial sectors in India. It is a diverse industry with a number of segments, and can be broadly categorised into two segments, namely, heavy engineering and light engineering. The engineering sector is relatively less fragmented at the top, as the competencies required are high, while it is highly fragmented at the lower end (e.g. unbranded transformers for the retail segment) and is dominated by smaller players.

The engineering industry in India manufactures a wide range of products, with heavy engineering goods accounting for bulk of the production. Most of the leading players are engaged in the production of heavy engineering goods and mainly produces high-value products using high-end technology. Requirement of high level of capital investment poses as a major entry barrier. Consequently, the small and unorganised firms have a small market presence.

The light engineering goods segment, on the other hand, uses medium to low-end technology. Entry barrier is low on account of the comparatively lower requirement of capital and technology. This segment is characterised by the dominance of small and unorganised players which manufacture low-value added products. However, there are few medium and large scale firms which manufacture high-value added products. This segment is also characterised by small capacities and high level of competition among the players.

The Industrial Engineering sector in India has been growing on the back of growth in the user industries and several new projects being undertaken in various core industries such as railways, power, infrastructure, etc. Capacity creation in sectors such as infrastructure, oil & gas, power, mining, automobiles, auto components, steel, refinery, aerospace etc, is driving growth of the industrial engineering industry.

IMS realises the same and has been very successfully organising Vendor Development Programs(VDP's) between companies of all tiers to strengthen the supply chain of the nation.

Infrastructure

The strong population growth in India and its booming economy are generating enormous pressures to modernize and expand India's infrastructure. The creation of world class infrastructure would require large investments in addressing the deficit in quality and quantity. More than USD 475 bn worth of investment is to flow into India's infrastructure . No country in the world other than India needs and can absorb so many funds for the infrastructure sector. With the above investments India's infrastructure would be equal to the best in the world by 2017.

In the next five years planned infrastructure investment in India in some key sectors are (at current prices): Modernization of highways -US\$ 75 billion, Development of civil aviation US\$ 12 billion, Development of Irrigation system- US\$ 18 billion, Development of Ports-US\$ 26 billion, Development of Railways- US\$ 71 billion, Development of Telecom- US\$ 32 billion, Development of Power -US\$ 232 billion. Thus in the eleventh five year plan ,investment in the above sectors (Aviation infrastructure ,Construction infrastructure, Highway infrastructure ,Power infrastructure, Port infrastructure ,Telecom infrastructure) will be US\$ 384 billions (Rs 17,20,000 Crores) considering the huge infrastructure market potential in India. In addition to the above, investments to the tune of US\$ 91 billion have been planned in other infrastructure sectors like Tourism infrastructure ,Urban infrastructure ,Rural infrastructure, SEZs ,and water infrastructure and sanitation infrastructure thus making the total infrastructure investments as US\$475 billions. Domestic and global infrastructure funds have exposure to Indian infrastructure sectors.

Infrastructure being a critical component of the economy will play a major role in sustaining this growth. Significant infrastructure development is required to sustain a growth rate of 8-9 percent per annum in the long term. Investments of the order of USD 500 bn are expected to take place in the coming years for developing ports, airports, roads, railways and real estate. Realizing that such massive infrastructure creation cannot take place without private sector and foreign participation the government is creating a policy framework today is increasingly conducive to private investment with several opportunities for Public Private Partnerships (PPPs).

Investment in sector during the Twelfth Plan would over US\$ 1 trillion

- >50 per cent of this investment envisaged from private sector
- Public sector investment to increase from \$300 bn in 11th plan to \$450 bn ie. annual increase of 9.34% in real terms.

Metallurgy & Mining

Minerals constitute the back-bone of economic growth of any nation and India has been eminently endowed with this gift of nature. There are many evidence that exploitation of minerals like coal, iron-ore, copper, lead-zinc has been going on in the country from time immemorial. The gross value of mineral production in India in 1995 is estimated to be approximate Rs.2,70,000 million up from about Rs.1,800 million in 1961, i.e. by nearly 150 times. Mineral wealth and its exploitation have substantially contributed to the growth of national economy. The contribution of mineral production to the Gross National Product went up from 1.02% in 1960-61 to 1.54% in 1980-81. Minerals continued to play a vital role in India's overseas trade too.

Construction and mining equipment cover a variety of machinery such as hydraulic excavators, wheel loaders, backhoe loaders, bull dozers, dump trucks, tippers, graders, pavers, asphalt drum / wet mix plants, breakers, vibratory compactors, cranes, forklifts, dozers, off-highway dumpers (20T to 170T), drills, scrapers, motor graders, rope shovels etc. They perform a variety of functions like preparation of ground, excavation, haulage of material, dumping/laying in specified manner, material handling, road construction etc. These equipment are required for both construction and mining activity. With a wide production capacity base, India is perhaps

the only developing country, which is totally self-reliant in such highly sophisticated equipment. India has only a few, mainly medium and large companies in the organized sector who manufacture these. The technology barriers are high, especially with respect to mining equipment and therefore the role of SME's is restricted to manufacture of components and some sub-assemblies.⁵

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⁵ <http://www.indiamanufacturingshow.com/index.php/metallurgy-mining>