



NATIONAL MANUFACTURING

THE NEXT MANUFACTURING DESTINATION

On the threshold of major reforms India is poised to become the third-largest economy of the world by 2030.



Ease Of Doing Business | Manufacturing | Infrastructure | Industrial Corridors | Skill India | Engineering | Sez

India is on the threshold of major reforms and is poised to become the third-largest economy of the world by 2030. In the words of our Hon'ble Prime Minister, India offers the 3 'Ds' for business to thrive— democracy, demography and demand. Add to that a tech-savvy and educated population, skilled labour, robust legal and IPR regime, and a strong commitment to calibrated liberalization – India is a destination that German investors cannot overlook. India's manufacturing sector has evolved through several phases - from the initial industrialisation and the license raj to liberalisation and the current phase of global competitiveness. Today, Indian manufacturing companies in several sectors are targeting global markets and are becoming formidable global competitors. Many are already amongst the most competitive in their sectors.

Demographics Advantage:

- 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.
- Strong consumerism in the domestic market.
- Strong technical and engineering capabilities backed by top-notch

scientific and technical institutes.

→ The cost of manpower is relatively low as compared to other countries.

Infrastructure:

→ Industrial Parks: Every state in India has developed industrial parks for setting up of industries.

→ National Investment & Manufacturing Zones: NIMZ is a combination of production units, public utilities, logistics, residential areas and administrative services. It would have a processing area, where manufacturing facilities, along with associated logistics and other services and required infrastructure will be located, and a non-processing area, to include residential, commercial and other social and institutional infrastructure.

→ Special Economic Zones: India has also developed SEZs that are specifically delineated enclaves treated as foreign territory for the purpose of industrial, service and trade operations, with relaxation in customs duties and a more liberal regime in respect of other levies, foreign investment.

→ Sector specific clusters: like electronic manufacturing clusters, mega food parks etc: The government of India has been promoting the development of sector specific parks.

→ Country specific zones: The country also have few dedicated zones for industrial units from countries for example Neemrana Japanese Zone etc.

→ Industrial corridors: The Government of India is developing the Delhi-Mumbai Industrial Corridor (DMIC) as a global manufacturing and investment destination utilizing the 1,483 km-long, high-capacity western

Dedicated Railway Freight Corridor (DFC) as the backbone. The objective is to increase the share of manufacturing in the GDP of the country and to create smart sustainable cities where manufacturing will be the key economic driver.

→ Other four corridors: planned include Bengaluru Mumbai Economic Corridor (BMEC); Amritsar - Kolkata Industrial Development Corridor (AKIC); Chennai Bengaluru Industrial Corridor (CBIC), East Coast Economic Corridor (ECEC) with Chennai Vizag Industrial Corridor as the first phase of the project (CVIC).

Incentives offered for manufacturing:

→ Sector specific initiatives: The government of India provides sector specific subsidies for promoting manufacturing for example in order to boost manufacturing of electronics, the Govt. of India provides capital subsidy of up to 25% for 10 years.

→ Area based incentives: Incentives are provided for units in SEZ/NIMZ as specified in respective acts or setting up project in special areas like North East Region, Jammu & Kashmir, and Himachal Pradesh & Uttarakhand.

→ Incentives under income tax act:

→ Investment Allowance: The Government of India in its Union Budget 2014-15, has provided investment allowance at the rate of 15 per cent to a manufacturing company that invests more than US\$ 4.17 million in any year in new plant and machinery.

→ Deductions: Several additional deductions are provided for instance deduction equal to 30% of additional wages paid to new regular workmen

employed by the assessee over and above 50 workmen.

- R&D Incentives: Higher weighted deductions of 200% provided for expenditure related to R&D subject to fulfilment of conditions.
- Export Incentives: Under the foreign trade policy exports have been provided with several incentives like duty drawback, duty remission schemes etc.
- State Incentives: Apart from above each state in India offers additional incentives for industrial projects. Some of the states also have separate policies for textile sector. Incentives are in areas like rebated land cost; relaxation in stamp duty exemption on sale/lease of land; power tariff incentives; concessional rate of interest on loans; investment subsidies / tax incentives; backward areas subsidies; special incentive packages for mega projects.

Recent Initiatives & Budget announcements for promoting manufacturing:

Ease of Doing Business:

- The corporate tax rate for companies registered in India to go down from 30% to 25% of net profits in a phased manner over the next four years starting from FY 16-17.
- An expert committee to examine the possibility and prepare a draft legislation where the need for multiple prior permission can be replaced by a pre-existing regulatory mechanism.
- Goods and Services Tax proposed to be implemented from April 01, 2016.

- The process of applying for Industrial License (IL) and Industrial Entrepreneur Memorandum (IEM) has been made online.
- Initial validity period of Industrial License has been increased to three years from two years, also, two extensions of two years each in the initial validity of three years of the Industrial License shall now be allowed up to seven years. This will give enough time to licensees to procure land and obtain the necessary clearances/approvals from authorities.
- Operationalizing the e-BIZ portal: Through eBiz portal, a business user can fill the eForms online/offline, upload the attachments, make payment online and submit the forms for processing of the department.
- Labor reforms:
 - A dedicated Shram Suvidha Portal: The portal would allot Labour Identification Number (LIN) to nearly 6 lakhs units and allow them to file online compliance for 16 out of 44 labour laws
 - An all-new Random Inspection Scheme: Utilizing technology to eliminate human discretion in selection of units for Inspection, and uploading of Inspection Reports within 72 hours of inspection mandatory
 - Universal Account Number: Enables 4.17 crore employees to have their Provident Fund account portable, hassle-free and universally accessible
 - Apprentice Protsahan Yojana: Will support manufacturing units mainly and other establishments by reimbursing 50% of the stipend paid to apprentices during first two years of their training
 - Department of Industrial Policy and Promotion has identified various areas and action points on ease of doing business index/indicators have been prepared for assessing the overall business performance of the country

as well as States/Union Territories.

→ Government has undertaken a number of steps to improve Ease of Doing Business in India. A large number of components of Defence Products' list have been excluded from the purview of Industrial Licencing. The application process for Industrial Licence and Industrial Entrepreneur's Memorandum has been made easy by simplification of form and making the process online 24X7. The validity period of the Industrial Licence and security clearance from Ministry of Home Affairs has been increased. The process of registration with Employees' Provident Fund Organization and Employees' State Insurance Corporation has been made on line and real-time. Process of obtaining environment and forest clearances has been made online. The Department of Industrial Policy and Promotion has advised Ministries and State Governments to simplify and rationalize the regulatory environment through business process reengineering and use of information technology. 14 Government of India services have been integrated with the online single window eBiz portal Skill India:

'SKILL INDIA' - a multi-skill development programme has been initiated with a mission for job creation and entrepreneurship for all socio-economic classes. It endeavours to establish an international equivalent of the Indian framework on skill development, creating workforce mobility and enhancing youth employability.

Sector opportunities: India provides great avenues for investments in various sectors.

→ Defence: India is expected to spend US\$ 40 billion on defence purchases

over the next 4-5 years. The opening of the strategic defence sector for private sector participation will help foreign original equipment manufacturers to enter into strategic partnerships with Indian companies and leverage the domestic markets and also aim at global business.

→ Automotive: India is expected to become a major automobile manufacturing hub and the third largest market for automobiles by 2020, according to a report published by Deloitte. India is currently the seventh-largest automobiles producer in the world with an average annual production of 17.5 million vehicles, and is on way to become the fourth largest automotive market by volume, by 2015.

→ Engineering: The Indian Engineering sector has witnessed a remarkable growth over the last few years driven by increased investments in infrastructure and industrial production. The engineering sector, being closely associated with the manufacturing and infrastructure sectors of the economy, is of strategic importance to India's economy. Growth in the sector is driven by various sub-sectors such as infrastructure, power, steel, automotives, oil & gas, consumer durables etc.

→ Textiles: The Indian textiles industry, currently estimated at around US \$108 billion, is expected to reach US \$ 141 billion by 2021. The Indian textile industry has the potential to grow five-fold over the next ten years to touch US\$ 500 billion mark on the back of growing demand for polyester fabric, according to a study by Wazir Advisors and PCI Xylenes and Polyester. The US\$ 500 billion market figure consists of domestic sales of US\$ 315 billion and exports of US\$ 185 billion.

→ Chemicals: The Indian chemical industry stands as the third largest

producer in Asia and 12th in world, in terms of volume. This industry could grow at 14 per cent per annum to reach a size of US\$ 350 billion by 2021.

India accounts for approximately 7 per cent of the world production of dyestuff and dye intermediates and is currently the world's third largest consumer of polymers and fourth largest producer of agrochemicals.

→ Food Processing: The Indian food industry stood around (US\$ 39.03 billion) in 2013 and is expected to grow at a rate of 11 per cent to touch (US\$ 64.31 billion) by 2018.

→ Leather: India's leather industry has witnessed robust growth, transforming from a mere raw material supplier to a value-added product exporter. In fact, today, almost 50 per cent of India's leather business comes from international trade.

→ Pharmaceuticals: The Indian pharmaceutical industry is estimated to grow at 20 per cent compound annual growth rate (CAGR) over the next five years, as per India Ratings, a Fitch Group company. Indian pharmaceutical manufacturing facilities registered with US Food and Drug Administration (FDA) as on March 2014 was the highest at 523 for any country outside the US. We expect the domestic pharma market to grow at 10-12 per cent in FY15 as compared to 9 per cent in FY14, as per a recent report from Centrum Broking. The domestic pharma growth rate was 11.9 per cent in October 2014, highlighted the report.

→ Electronics: The electronics market is one of the largest in the world and is anticipated to reach US\$ 400 billion in 2022 from US\$ 69.6 billion in 2012. The market is projected to grow at a compound annual growth rate (CAGR) of 24.4 per cent during 2012-2020.

Electronics Systems Design & Manufacturing

- Heavy industries
- Machineries
- Engines
- Tools
- Steel products
- Industrial equipment's
- Electrical and Home Appliances
- Builders Hardware
- Railway and related products and equipment's
- The Indian electronics system design and manufacturing (ESDM) industry is at a huge inflection point. From being predominantly consumption driven, the Indian ESDM industry has a major potential to become a design led manufacturing industry. The industry is one of the fastest growing sectors in the country. The Indian ESDM industry was estimated to be \$68.31 billion in 2012. The impressive guidance between 2011 and 2015 for this industry is expected to result in a Compound Annual Growth Rate (CAGR) of 9.88 percent. The corresponding size of the industry by 2015 is anticipated to be \$94.2 billion. Reasons to Invest
 - Huge consumption market: The corresponding size of the industry by 2015 is anticipated to be \$94.2 billion. Large demand to be generated due to government schemes like the National Knowledge Network (NKN), National Optical Fibre Network (NOFN), tablets for the Education sector, a digitisation policy and various other broadband schemes.
 - Attractive Incentives: The central and state government have announced

scheme of incentives for manufacturing of electronics. Incentives include up to 25% capital subsidy on capital expenditure, giving land at rebated cost, reimbursement of central and state duties, income tax exemptions on setting up in special economic zones, assistance in skill development etc.

→ Availability of the infrastructure: The government is promoting development of electronics manufacturing clusters throughout the country to provide world class infrastructure and facilities. The Government of India has also received the applications of two consortia (IBM, Jaypee Group, TowerJazz; ST Microelectronics, HSMC) to establish 2 semiconductor wafer fabrication units in Gujarat and Noida with the aim of operating at 20 nm process node within two years of initial operations and reaching a capacity of at least 40,000 WSPM of at least 300 mm size.

→ Availability of Skilled Manpower: India has the third largest pool of scientists and technicians in the world. Skilled manpower is available in abundance in Semiconductor Design and Embedded Software. India also has strong design and R&D capabilities in auto electronics and industrial electronics.

→ Investment Opportunities:

→ Setting up of Electronics Manufacturing Clusters.

→ Semiconductor Wafer Fabrication (FAB).

→ Electronic products like telecom equipment, LED's, consumer electronics, medical electronics, automotive electronics etc.

→ Electronic Components.

→ Semiconductor Design.

→ Electronics Manufacturing Services (EMS).

Defence Indian defence sector is at the cusp of an inflexion point wherein the future growth will be propelled by indigenous manufacturing both for domestic & global clients. The sector will witness strong growth over the next decade due to its current size, longevity, and competitive advantages. As per FICCI-Centrum report the market opportunity for Indian companies (PSU + Pvt) will grow 7x from \$6bn in FY14 to \$41bn by FY22.

Reasons to Invest

- India has some of the basic ingredients (large and relatively low cost (Frugal) engineering talent pool, comfort of western nations with India from a geo-political perspective) to exploit this opportunity but it will have to significantly improve on some others (technology, lack of a defence manufacturing ecosystem, etc). Also, the nature of warfare is becoming more software intensive, which plays into the strength of India considering IT sector growth in the past two decades.
- India may become a large sourcing base for components and sub-systems in the years to come for foreign systems integrators this will happen as these companies face price pressure in the years ahead as the large arms consumers – US and the western developed world – seek cut backs on defence spending to improve their financial position and rein in fiscal deficits and debt/GDP ratios. Already a number of JVs have been signed between Indian and foreign players.
- The offset clause (which stipulates that 30-50% of the armament purchase value should be spent on buying Indian components, sub-systems and products) introduced in capital purchase agreements with foreign defence players will ensure that an ecosystem of suppliers is built

domestically.

→ Indigenization will take centre stage and gather pace going forward.

Government has taken a number of steps in this direction. DPP 2013 furthers the cause of developing domestic defence sector by prioritizing procurement from Indian companies and buying from global companies as the last resort.

→ Recent Government Initiatives:

→ 53% of the defence items for manufacturing by private sector have been de-licensed and dual use items having military as well as civilian applications if not specifically mentioned deregulated.

→ FDI cap raised to 49% and beyond 49% wherever it is likely to result in access to modern and 'state-of-art' technology in the country.

→ The procurement process would be made more efficient, time bound and predictable so that the industry can plan its investment and R & D well in advance to meet the requirement of our armed forces.

→ Online filing and increase in validity of industrial license.

→ Streamlining procedure in case of defense exports.

There is a big opportunity in the defence sector for both domestic and foreign investors. We have the third largest armed force in the world with an annual budget of about US\$ 38 billion and 40% of this is used for capital acquisition. In the next 7-8 years, we would be investing more than US\$ 130 billion in modernization of our armed forces.

Automobiles

Demographically and economically, India's automotive industry is well-positioned for growth, servicing both domestic demand and, increasingly,

export opportunities. A predicted increase in India's working-age population is likely to help stimulate the burgeoning market for private vehicles. Rising prosperity, easier access to finance and increasing affordability is expected to see four-wheelers gaining volumes, although two wheelers will remain the primary choice for the majority of purchasers, buoyed by greater appetite from rural areas, the youth market and women. Reasons to Invest:

- Over the next 20 years, India will be a part of the big global automotive triumvirate.
- Growth factors - growth in demand on back of rising income, expanding middle class and young population base, large pool of skilled manpower and growing technology; The country enjoys natural advantage and is among the lowest cost producers of steel in the world.
- Tractor sales in the country are expected to grow at CAGR of 8-9% in the next five years, upping India's market potential for international brands.
- Two-wheeler production has grown from 8.5 Million units annually to 15.9 Million units in the last seven years. Significant opportunities exist in rural markets.
- India's car market has the potential to grow to 6+ Millions units annually by 2020.
- The emergence of large automotive clusters in the country: Delhi-Gurgaon-Faridabad in the north, Mumbai-Pune-Nashik- Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east.
- Global car majors have been ramping up investments in India to cater to growing domestic demand. These manufacturers plan to leverage India's

competitive advantage to set up export-oriented production hubs.

→ An R&D hub: strong support from the government in the setting up of NATRiP centres. Private players such as Hyundai, Suzuki, GM are keen to set up an R&D base in India.

→ Tata Nano is a sterling example of Indian frugal engineering and is being positioned as a mobilizer of the young generation.

→ Electric cars are likely to be a sizeable market segment in the coming decade.

→ Multinational automotive plants in India rank among the top across the world in terms of their productivity and quality.

→ Largest tractor manufacturer; 2nd largest two wheeler manufacturer; 2nd largest bus manufacturer; 5th largest heavy truck manufacturer; 6th largest car manufacturer; 8th largest commercial vehicle manufacturer.

→ Investment Opportunities:

→ Two-wheelers (motorcycles, geared and ungeared scooters and mopeds),

→ Three wheelers,

→ Commercial vehicles (light, medium and heavy),

→ Passenger cars,

→ Utility vehicles (UVs) and Tractors.

Production in 2013-14 – Passenger vehicles – 3.1 million; two wheelers – 16.9 million; commercial vehicles – 0.7 million; three wheelers – 0.8 million

Engineering

The Indian Engineering sector has witnessed a remarkable growth over the last few years driven by increased investments in infrastructure and industrial production. The engineering sector, being closely associated with

the manufacturing and infrastructure sectors of the economy, is of strategic importance to India's economy. Growth in the sector is driven by various sub-sectors such as infrastructure, power, steel, automotives, oil & gas, consumer durables etc. The country now joins an exclusive group of 17 countries who are permanent signatories of the WA, an elite international agreement on engineering studies and mobility of engineers. Reasons to Invest:

- The engineering sector in India attracts immense interest from foreign players as it enjoys a comparative advantage in terms of manufacturing costs, technology and innovation.
- Capacity creation in sectors such as infrastructure, power, mining, oil & gas, refinery, steel, automotive, and consumer durables driving demand in the engineering sector.
- The government has an ambitious mission of 'Power for all by 2012' and has planned capacity additions of 120 GW in the 12th Five-Year Plan.
- Governmental infrastructure projects such as Golden Quadrilateral and the North-South and East-West corridors fuelled growth in the engineering sector
- India has Comparative advantage vis-à-vis peers in terms of manufacturing costs, market knowledge, technology and creativity.
- More than 2,500 firms in the engineering sector have ISO 9000 accreditation.
- The engineering sector is a growing market. Current spending on engineering services is projected to increase to US\$ 1.1 trillion by 2020.
- The Indian engineering sector is of strategic importance to the economy

owing to its intense integration with other industry segments. The sector has been de-licensed and enjoys 100 per cent FDI. With the aim to boost the manufacturing sector it has announced scheme for capital goods sector.

→ Engineering exports from India are expected to cross US\$ 70 billion in FY 15 registering a growth of 15 per cent over the previous fiscal, as demand in key markets such as the US and the UAE is on the rise. Apart from these traditional markets, markets in Eastern and Central European countries such as Poland also hold huge promise.

→ The Government of India in its Union Budget 2014-15, has provided investment allowance at the rate of 15 per cent to a manufacturing company that invests more than US\$ 4.17 million in any year in new plant and machinery. The government has also taken steps to improve the quality of technical education in the engineering sector by allocating a sum of Rs 500 crore (US\$ 78.8 million) for setting up five more IITs in the states of Jammu, Chhattisgarh, Goa, Andhra Pradesh and Kerala.

Investment Opportunities:

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