

International Conference on "Research avenues in Social Science" Organize by SNGC, Coimbatore

INVESTMENT OPPORTUNITIES IN INDIAN MANUFACTURING INDUSTRY

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Introduction:

Indian economy is classified in three sectors — Agriculture, Production (Industry) and Services. Agriculture sector includes Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. Production includes Manufacturing (Registered & Unregistered), Pharmaceuticals, Engineering, Textile, Mining and Construction. Services sector includes Trade, repair, hotels and restaurants, Transport, storage, communication & services related to broadcasting, banking, Financial, real estate & prof servs, Community, social & pers. Servs.

The Government of India has taken significant initiatives to strengthen the economic credentials of the country and make it one of the strongest economies in the world. India is fast becoming home to start-up companies focused on high growth areas such as mobility, e-commerce and other vertical specific solutions - creating new markets and driving innovation.

The Government has launched the 'Make in India' initiative to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. The Government of India has set an ambitious target of increasing the contribution of manufacturing output to 25 per cent of Gross Domestic Product (GDP) by 2025, from 16 per cent currently.

Based on the new forecasts from World Bank released in Jan 2016, India's GDP per cent in comparison with High income, developing countries and with world.

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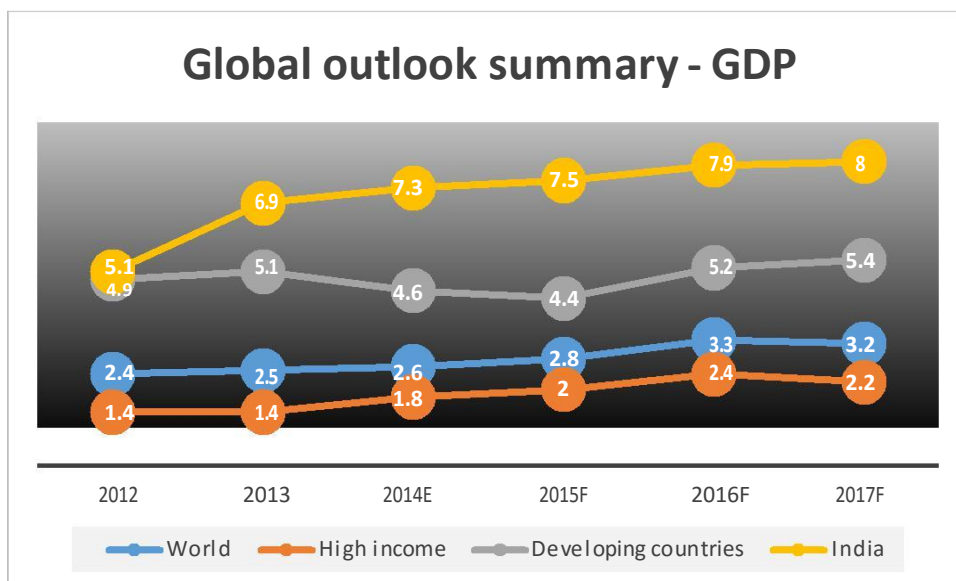


Figure 1 : Extract from Global outlook summary - GDP

Production Sector:

The Indian Production sector underwent significant changes as a result of the economic liberalisation in India economic reforms of 1991, which removed import restrictions, brought in foreign competition, led to the privatisation of certain government owned public sector industries, liberalised the FDI regime, improved infrastructure and led to an expansion in the production of fast moving consumer goods. Post-liberalisation, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, and relying on cheap labour and new technology. However, this has also reduced employment generation even by smaller manufacturers who earlier relied on relatively labour-intensive processes.

India's Production sector to have notched up a healthy 7.1 per cent per cent annual growth for the fiscal, and a heady 8.4 per cent in the last quarter. This is against the corresponding year-on-year growth rates of 5.3 per cent for 2013-14 and 4.4 per cent in January-March 2014. According to the World Bank, India's industrial manufacturing GDP output in 2015 was 6th largest in the world.

Although India dropped from the top 10 position of the Investment Confidence Index – 2015 for the first time since 2002 (by A.T.Kearney), the country's "Make in India" initiative,

International Conference on "Research avenues in Social Science" Organize by SNGC, Coimbatore launched in September 2014, aims to improve the ease of doing business in India, and remove or relax foreign equity caps in several areas.

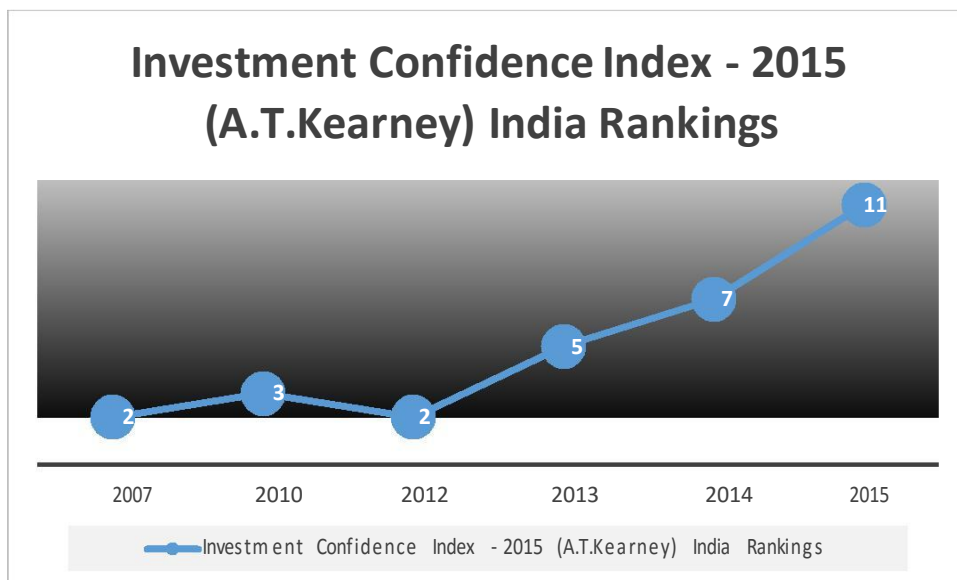


Figure 2 : Investment confidence Index – 2015, India Rankings.

Manufacturing Industry:

Business conditions in the Indian manufacturing sector continue to remain positive. Based on the research report by CARE ratings, Indian manufacturing companies seem to have improved their performance in the third quarter (Oct-Dec 2015) of the current financial year compared to the same period a year before. "The results show just about a stable performance with marginal growth in net sales and a slightly higher growth in net profit. Net profit margin has improved mainly on this score for some groups. As the sample is not comprehensive with most large companies yet to announce their results, there would be a change in these numbers,"

It is estimated that India needs to create 7-8 million new jobs each year outside agriculture to stay at its current unemployment level of 7 percent. Manufacturing jobs are ideal for workers transitioning out of agriculture as service jobs require high level of education and

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professionalism. The revival of manufacturing sector can create close to 2.5 Million new jobs every year. 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.

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Factors influencing manufacturing industry growth:

Demand for India's manufacturing exports so far has been led by advanced economies, consuming 29 per cent of total products exported from the country. The US and Western Europe are the key destinations within advanced economies. However, this trend is likely to change as the growth in emerging economies of Asia, Africa and the Middle East is expected to outpace that of developed markets. Already some change is visible, with the Middle East emerging as a key market for a number of Indian products like engineering goods, readymade garments, and gems and jewellery. Closer trade ties with ASEAN nations, China, Latin America, and Africa in the coming decade will intensify the above trend.

The government recognizes this fact that the technology is the key to expanding manufacturing base and increasing India's presence in global market. Therefore provided a number of incentives to facilitate technology development like Import duty cut and subsidies on investment for upgrading technology.

Domestic demand, strong growth in per-capita income, a young and growing population, rapid urbanisation, and changing lifestyles will keep the manufacturing sector busy for the coming decades.

Investment opportunities in Manufacturing Industry:

In Oct'15, India eased foreign direct investment (FDI) norms in 15 sectors including construction, civil aviation, private banking, manufacturing and mining. Some outdated conditionalities that existed along with the sectoral caps have either been done away with or eased.

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In a major boost to the 'Make in India' initiative, the Government of India has received investment proposals of over US\$ 3.05 billion till end of August 2015 from various companies. 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:

- Canada's Magna International Incorporated has started production at two facilities in Gujarat's Sanand, which will supply auto parts to Ford Motor Co in India and will employ around 600 people at both units.
- Coca-Cola is planning to launch a 1,200 crore facility in Nellore district of Andhra Pradesh, which is supposedly going to be its biggest greenfield manufacturing facility in Asia. According to industry sources, the facility would be built over 150 acres of land in the industrial zones being developed by IFFCO in the region. The beverage giant has picked up areas like Andhra Pradesh, Tamil Nadu and Karnataka for its upcoming factory in order to cater to the burgeoning demand of its products.
- Swedish home furnishing brand IKEA has made a long-term plan of opening 25 stores in India by making an investment worth Rs 12,500 crore (US\$ 1.9 billion).
- Siemens has announced that it will invest € 1 billion (US\$ 1.13 billion) in India to add 4,000 jobs to its existing workforce of 16,000 in the country.
- US-based First Solar Inc and China's Trina Solar have plans to set up manufacturing facilities in India.
- Clean energy investments in India increased to US\$ 7.9 billion in 2014, helping the country maintain its position as the seventh largest clean energy investor in the world.
- Samsung Electronics has invested Rs 517 crore (US\$ 77.82 million) towards the expansion of its manufacturing plant in Noida, Uttar Pradesh (UP). "Samsung India Electronics is committed to strengthen its manufacturing infrastructure and will gradually expand capacity at this plant to meet the growing domestic demand for mobile handsets, as per the company.
- Shantha Biotechnics Private Limited has started building a facility to manufacture Insuman, an insulin product to treat diabetes. Sanofi SA, which acquired Shantha Biotechnics, will invest Rs 460 crore (US\$ 69.24 million) to build the facility.
- BMW and Mercedes-Benz have intensified their localisation efforts to be part of 'Make in India' initiative. "The localisation efforts will reduce the waiting period and

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accelerate the servicing process of our cars as we had to (previously) depend on our plants overseas for supply and will help us on the pricing front.”

- Suzuki Motor Corp plans to make automobiles for Africa, the company’s next big bet, as well as for India at its upcoming factory in Hansalpur, near Ahmedabad, Gujarat.
- Taiwan-based HTC has decided to manufacture products in India. HTC is believed to have partnered GDN Enterprises, which has an assembly set up in Noida.
- Foxconn is planning an aggressive expansion in India, building up to 12 new factories and employing as many as one million workers by 2020 The State Government of Tamil Nadu has signed investment agreements worth Rs 2,42,160 crore (US\$ 36.45 billion) during a two-day Global Investors Meet in September 2015.

Future growth of Manufacturing Industry:

The Government of India has an ambitious plan to locally manufacture as many as 181 products. The move could help infrastructure sectors such as power, oil and gas, and automobile manufacturing that require large capital expenditure and revive the Rs 1,85,000 crore (US\$ 28.42 billion) Indian capital goods business.

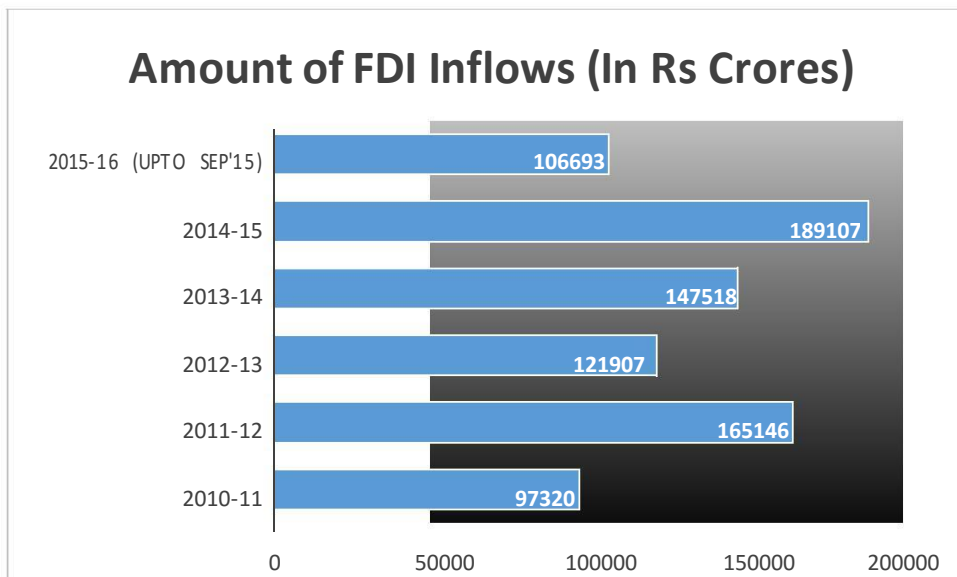
India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

Conclusion:

Department of Industrial Policy & Promotion’s fact sheet on Foreign Direct Investment (FDI) statistics, India had secured ₹ 106693 Cr during this financial year (2015-16) , from Apr to

Sep’15. Figures for the years mentioned below are provisional subject to reconciliation with RBI

Figure : FDI Inflow - India



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Reference:

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