

MAKE IN INDIA: CHALLENGES AND OPPORTUNITIES

This report identifies issues related to manufacturing in MSME'S & textile sector and how the government policies and efforts can remove hurdles in their growth

Finalist – ***Metamorphosis competition***
Vista Business Fest 2015

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Tejas is proud to present the award-winning articles of its flagship whitepaper competition ***Metamorphosis***, conducted during IIMB's 3-day business fest ***Vista*** (2015). Tejas congratulates the winning teams for their outstanding performance and thanks all participants for their dedicated efforts.

The *Metamorphosis* challenge: The vision of '*Make In India*' is holistic development in infrastructure, manufacturing, renewable energy, and other key sectors. Large conglomerates are in a position to provide strategic impetus to drive domestic growth, as they have huge capital outlay and managerial talent. At '***Metamorphosis***', Tejas challenges participants to develop expansion and diversification strategies for a specific company, by capitalizing on *Make in India* initiatives. The strategy should consider regulatory framework, government involvement and subsidies, resource outlay, and potential challenges in implementation.

Disclaimer: These articles are participant entries submitted in the ***Metamorphosis*** competition. These have not been edited by Tejas, nor does Tejas endorse the views expressed in these articles. All articles have been published with the express permission of the participants.

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EXECUTIVE SUMMARY

Over the past several decades, the globalization of the manufacturing ecosystem has driven more change and impacted the prosperity of more companies, nations and people than at any time since the dawn of the Industrial Revolution. Nations around the world have taken part in and benefited from the rapid globalization of industry and expansion of manufacturing. Globalization of manufacturing has been a key driver of higher-value job creation and rising standard of living for the growing middle class in emerging nation economies.

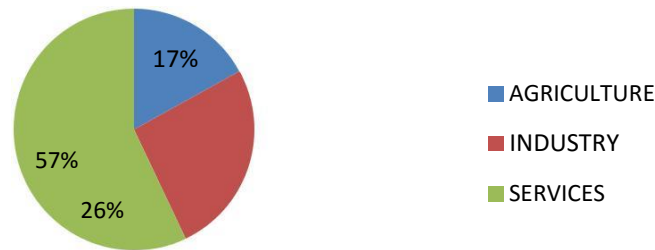
The Government of India has taken a number of steps to further encourage investment and improve business climate IN MANUFACTURING. „Make in India“ mission is one such long term initiative which will help to realize the dream of transforming India into a „manufacturing hub“.

This report starts with identifying issues related to manufacturing in MSME'S & textile sector and how the government's efforts can remove hurdles to augment the same. According to the analysis of the secondary data available and author's personal views, this report establishes that the Governments efforts at various levels can lead to resurgence of India as a manufacturing behemoth.

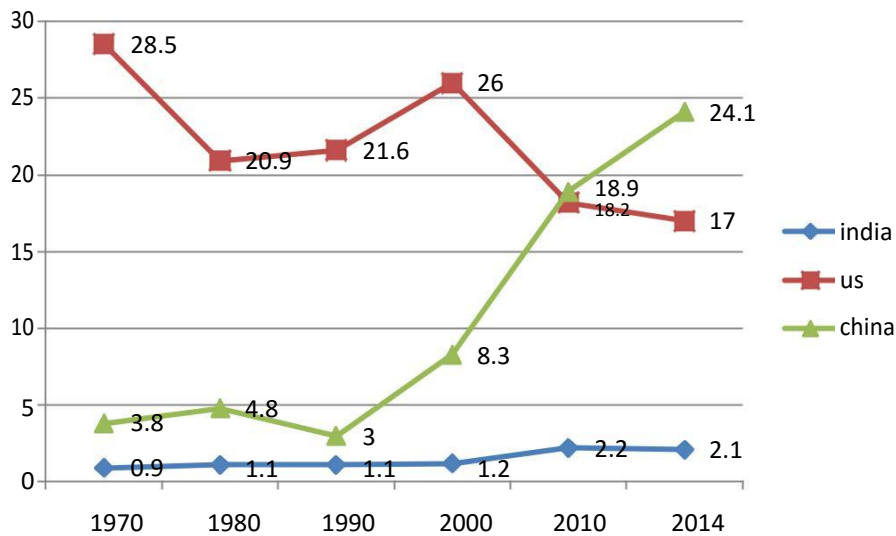
INTRODUCTION

The make in India initiative started by government of India helps to facilitate investment, foster innovation, enhance skill development, protect intellectual property, build manufacturing infrastructure. For contribution of at least 25% of GDP by 2022 in manufacturing sector growth should be 12-14% Per annum higher than the GDP rate.

GDP Contribution - Sectors

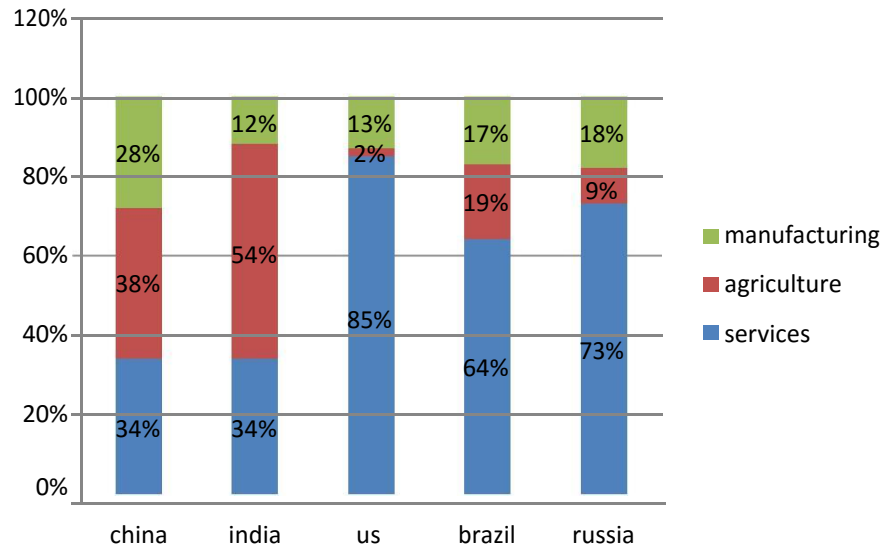


Manufacturing Output as a % Of World Total

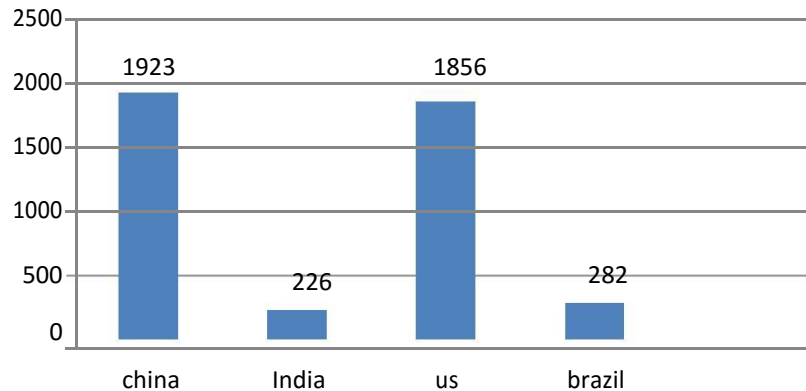


The share of manufacturing in India's GDP has stagnated at 15-16% since 1980 while the share in comparable economies in Asia is much higher at 25 to 34%

EMPLOYMENT IN DIFFERENT SECTORS-GLOBAL SCENARIO



MANUFACTURING GROSS VALUE



SOURCE: <https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/BBG-Manufacturing.pdf>

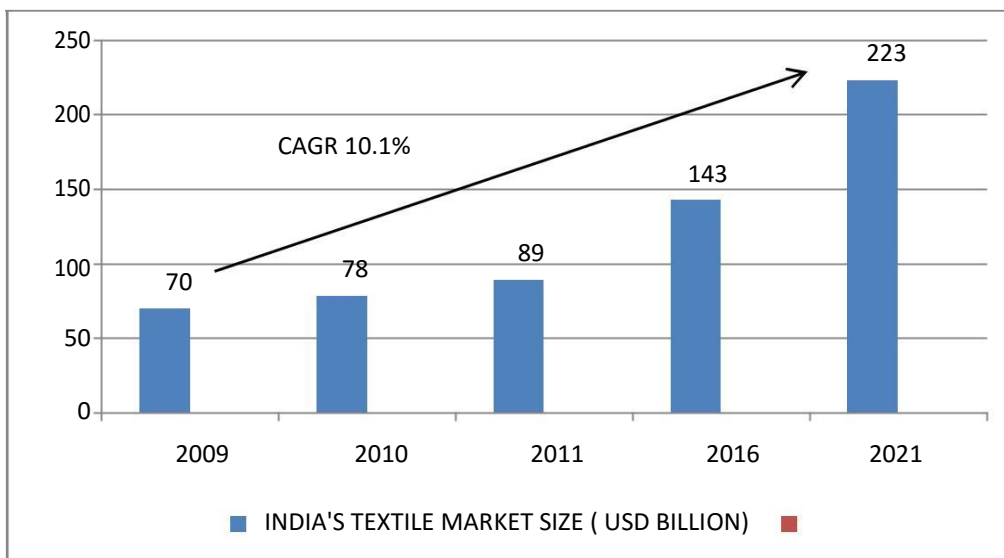
The advancement of manufacturing capabilities is directly linked to increasing economic prosperity for a nation and its citizens. Proper positioning and movement within the product space determines the ability to accelerate economic development. Emerging nations should focus on directing policy and investing resources in building capabilities and in product groups

TEXTILES

The textile sub-sector in India is characterised by small-scale, non-integrated spinning, weaving, finishing, and apparel making enterprises. This structure arose due to policies on tax, labour and other regulations that favoured small-scale, labour-intensive enterprises, while discriminating against large-scale, capital-intensive operations. Small-scale 'unorganised' players dominate the sector which lacks stringent regulations. Highlights of the textile sector are as follows:

- **2nd largest producer in Cotton, Silk, Wool**
- **63% of worlds market share (highest loom capacity)**
- **2nd largest textile manufacturer**
- **24% of the world's spindles**
- **Synthetic fibre-4th**

India's textile market size (USD billion)

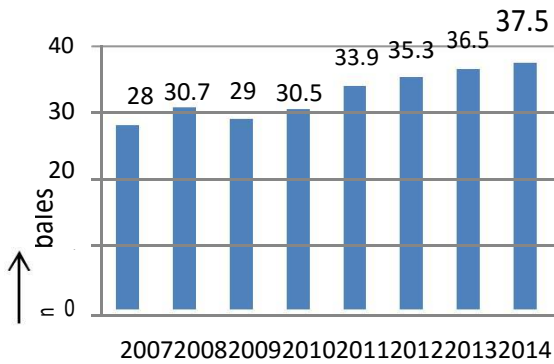


SOURCE : http://www.ibef.org/download/Textiles_and_Apparel50112.pdf

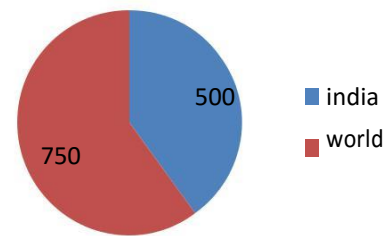
COTTON

Livelihood of 60 million people depends on cotton cultivation, processing trade and textiles. It has a great potential in manufacturing. Cotton covers around 7% of the total crop coverage and is second to rice in India.

India's production of raw cotton

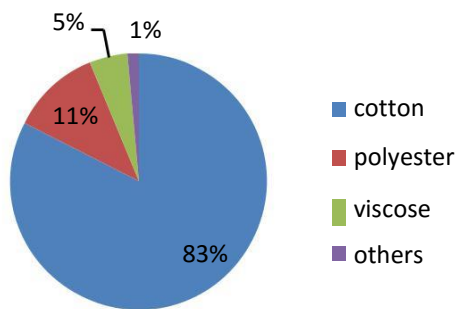


Yield per hectare- India vs world

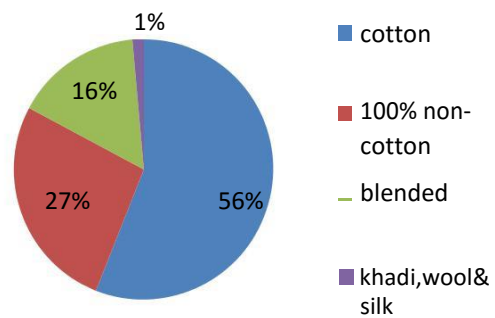


SOURCE: *The Cotton Corporation of India Ltd, Aranca Research*
 Notes: CAGR - Compounded Annual Growth Rate, One Bale - 170 kG

Fiber production - India



Cloth production -India



SOURCE :http://india-itme.com/pdfs/Textile_Machinery_Market.pdf

The abundant availability of raw material of cotton has to be utilized such that the convertibility ratio is high in bringing out the value added products. The yield per hectare of cotton can be improved by introducing latest Technologies. the per capita spending on cloth of India is 37usd which is less as compared with china which has 122USD & brazil which has 387 USD, which has the greatest potential in unveiling the fabric market in INDIA

MSME – ROLES AND OPPORTUNITIES

The MSME sector is one of the key drivers for India’s transition from an agrarian to an industrialised economy. MSMEs account for a large share of industrial units. “According to MSME Act, 2006 the investment made in plant & machinery is classified as known as Micro (<25 lakh), Small (25lakh- 5 crore), Medium(>5-10crore) Enterprises. The following are the roles of MSME’S

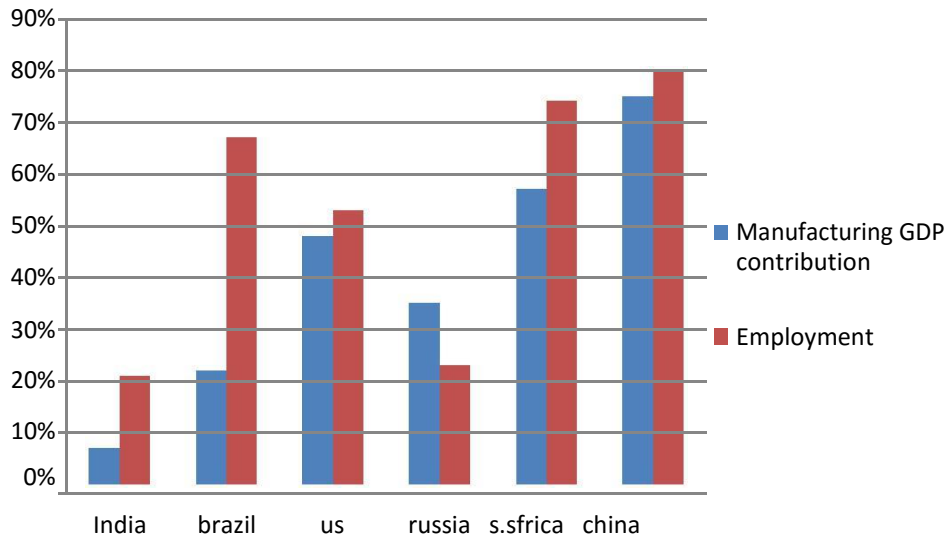
- **Ensuring Adequate flow of credit**
- **Skill Up-gradation**
- **Promoting Trade**
- **Infrastructure**
- **Balanced Regional Development**

| INDUSTRIAL PRODUCTION | TOTAL EXPORTS | CONTRIBUTION TO GDP | |
|-----------------------|---------------|---------------------|----------|
| | | MANUFACTURING | SERVICES |
| 45% | 42.38% | 7.04% | 37.54% |

OPPORTUNITIES

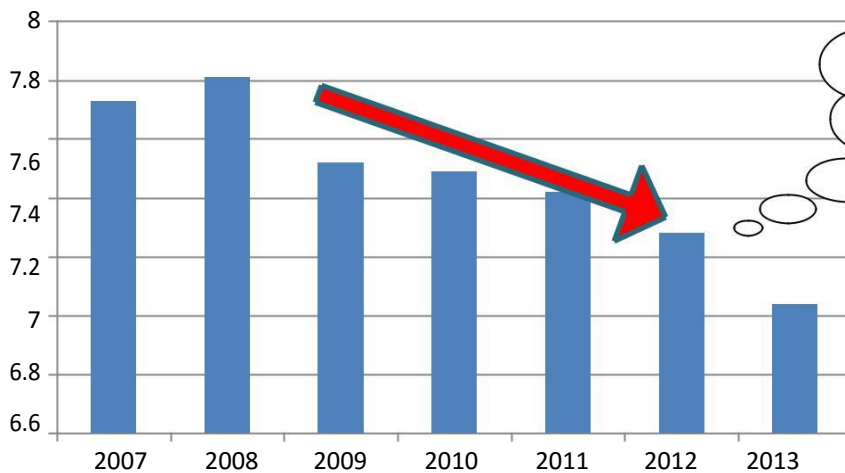
- **Economic Drivers**
- **Employment Generators**
- **Sectorial Growth**

MSME'S –CONTRIBUTION TO MANUFACTURING GDP VS EMPLOYMENT-GLOBAL SCENARIO



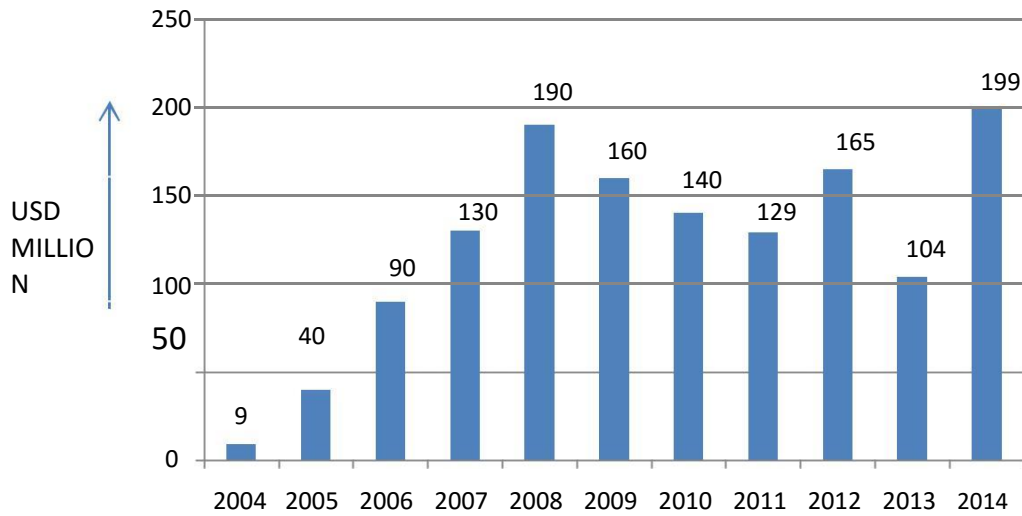
SOURCE : https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/The%20new%20wave%20Indian%20MSME_Low%20Res.pdf

MSME'S –CONTRIBUTION TO MANUFACTURING-INDIA



There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people MSME sector can provide comparatively larger employment opportunities at comparatively lower capital cost especially in the rural and remote areas, by becoming part of the industrial ecosystem and act as ancillary units for large enterprises to support the system in growth.

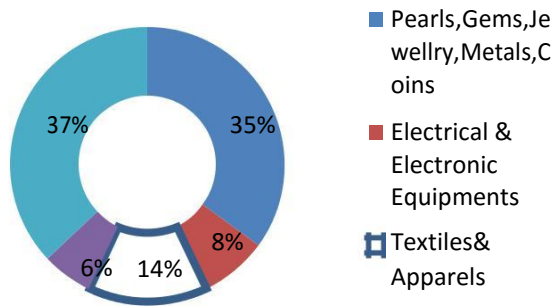
FOREIGN DIRECT INVESTMENT



BUDGET PROPOSALS

| proposals | Amount in million rs |
|-----------------------------------|----------------------|
| Trade facilitation center-varnasi | 500 |
| Mega textile clusters(7 places) | 2000 |
| Hastkala academy-delhi | 300 |
| P-3 programme-j&k | 500 |

OPPORTUNITIES FOR TEXTILE SECTOR IN MSME'S

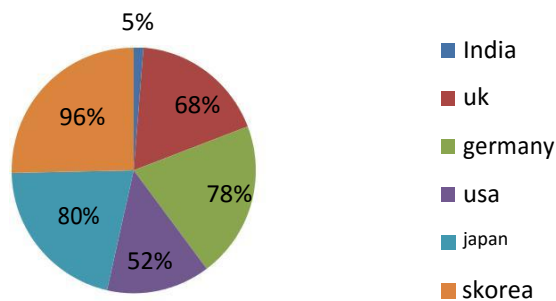


- **Processing & Packaging**
- **Raw fabric and dye production**
- **Setting up of Handlooms/Power looms**

SKILL DEVELOPMENT

| Employment(no of employees in millions) | 2015 | 2022(projected) |
|--|-------|-----------------|
| working population in Textile sector | 35.4 | 61.6 |
| Total working population(15-59) | 793.6 | 881 |
| Total population | 1280 | 1370 |

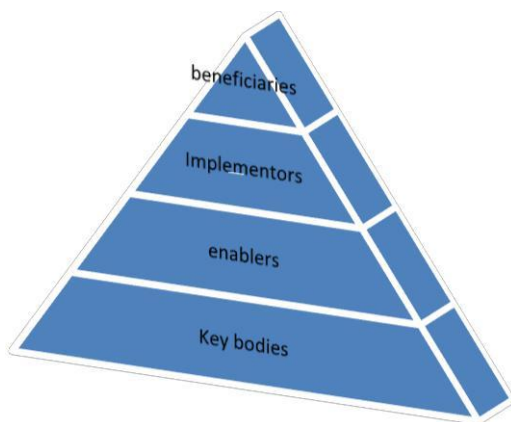
% of working population undergone formal skill training



SOURCE: <https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/FICCI-KPMG-Global-Skills-Report-low.pdf>

The government along with other agencies should incentivise the students to enrol in higher education and vocational training with increasing demand for skilled labour.

SKILL ECOSYSTEM



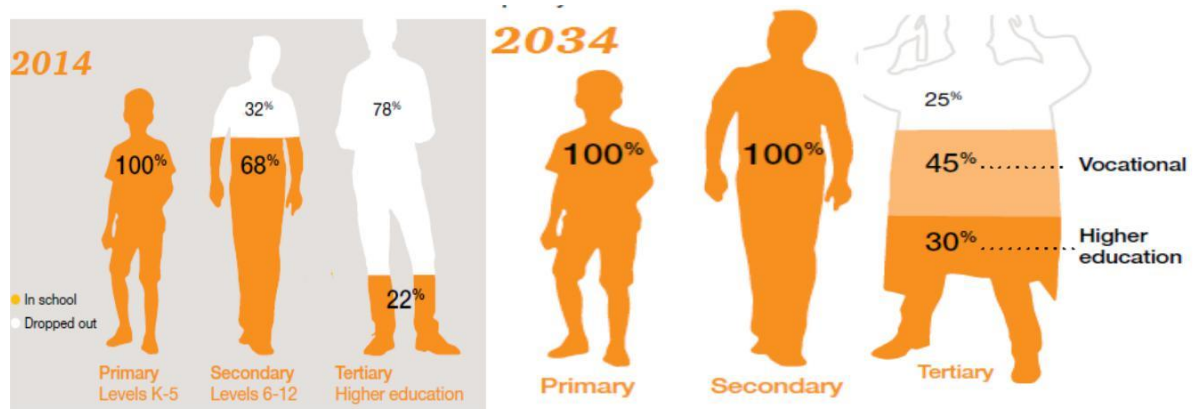
The economic growth in the country which has led to a huge requirement of skilled workforce has ensured that the ecosystem has larger participation from all stakeholders which include decision making bodies, enablers, implementing agencies and beneficiaries.

| COUNTRIES/PARAMETERS | INFRASTRUCTURE | MACRO-ECONOMIC ENVIRONMENT | BUSINESS SOPHISTICATION | INNOVATION | OVERALL RANKING |
|----------------------|----------------|----------------------------|-------------------------|------------|-----------------|
| BRAZIL | 76 | 85 | 47 | 62 | 57 |
| RUSSIA | 39 | 31 | 86 | 65 | 53 |
| INDIA | 87 | 101 | 57 | 49 | 71 |
| CHINA | 46 | 10 | 43 | 32 | 28 |
| S.AFRICA | 60 | 89 | 31 | 43 | 56 |

GLOBAL COMPETITIVENESS RANKING 2014-15

RECOMMENDATIONS-SKILL DEVELOPMENT

- Improving access to education with higher enrolment coupled with better quality of education.



- Provide incentives to factory workers in the form of skills premium

- Revise design course content in line with the global trends
- High percentage of Enrolment for Vocational courses



**Enrollment for vocational courses
(persons in millions)**

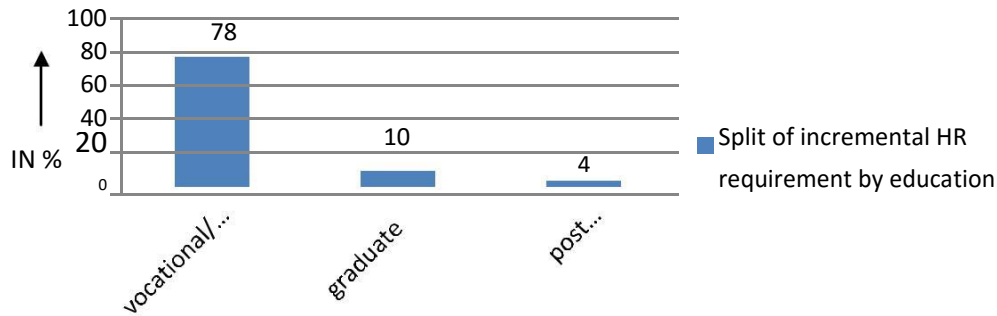
| | |
|-------|------|
| India | 5.5 |
| China | 90 |
| US | 11.3 |

- Use of technology enabled solutions and adoption of the 'PPP model school' Format-Government as an Enabler

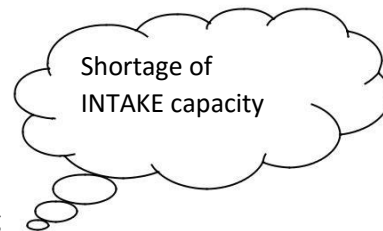
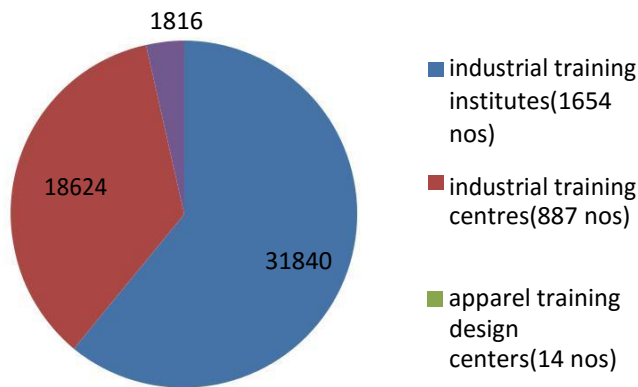


- No. of Industrial Training Institutes has to be increased

Split of HR requirement by education

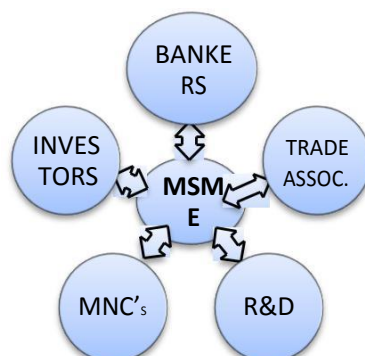


Intake Capacity



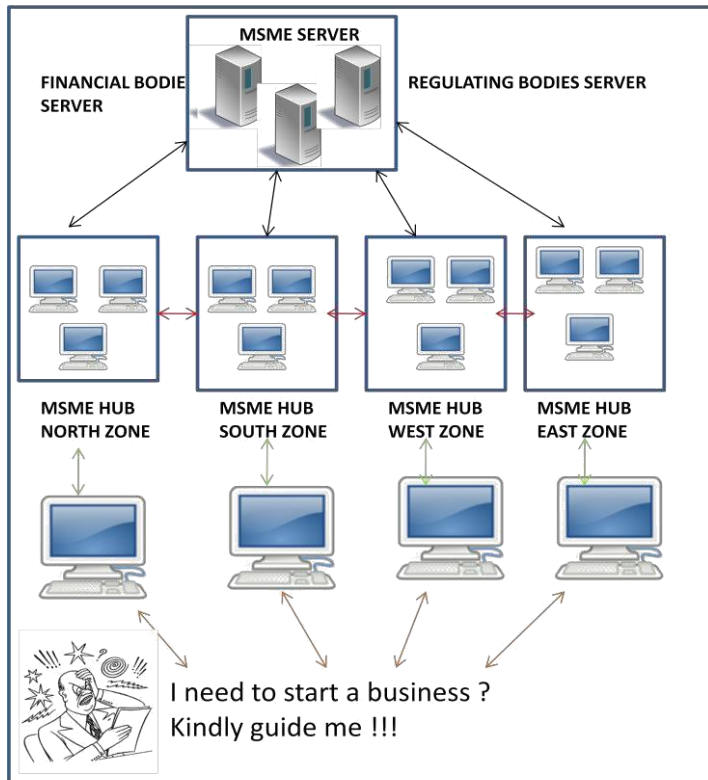
RECOMMENDATIONS – PHYSICAL FACTORS

- Develop infrastructure to bring industry, not vice versa
- Allocate 25 per cent of the land available at all Industrial corridors for MSMEs at different rate slabs and for acquiring models.



Link Msme's

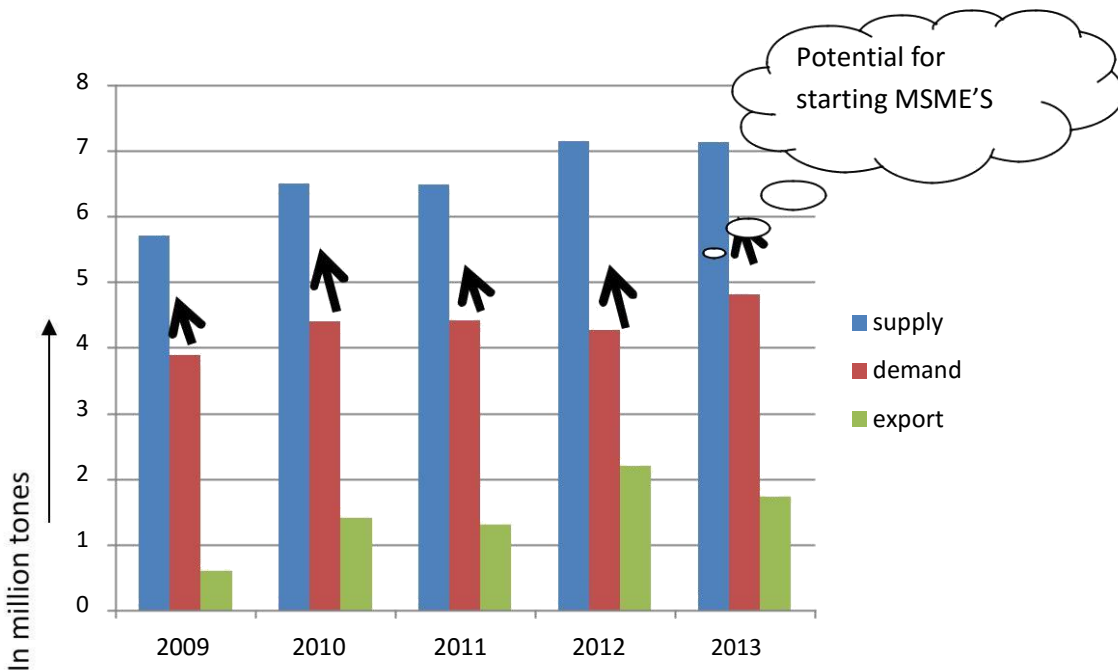
PROPOSED BUSINESS MODEL



MSME WEBSITE INFO

- CHOOSE THE SECTOR
- LIST OF COMPANIES
- START-UPS
- ENABLING BODIES
- ACQUISITIONS/MERGERS
- FINANCIAL ASSISTANCE
- MARKETING ASSISTANCE
- DOMESTIC
- INTERNATIONAL
- SEZ/CLUSTERS
- MAPS
- LEAN MANUFACTURING
- SKILL DEVELOPMENT
- QUALITY MANAGEMENT
- STANDARDS
- BUSINESS INCUBATORS

Cotton Demand Vs Supply



RECOMMENDATIONS- SOCIAL FACTORS

➤ **Complete Stalled projects**

Lack of coordination with state entities across states and central government. Public agencies which are mostly involved in the project execution has to set practices and processes to execute and monitor investments in order to avoid the project delays. PPI (Private Participation in Infrastructure) should be high.

➤ **Improve Ease of Doing Business**

| INDICATOR/COUNTRY | NEWZEELAND | INDIA |
|---|-------------------|--------------|
| Procedures (number) | 1 | 13 |
| Time (days) | 0.5 | 30 |
| Cost (% of income per capita) | 0.3 | 16.3 |
| Paid-in min. capital (% of income per capita) | 0 | 111.2 |

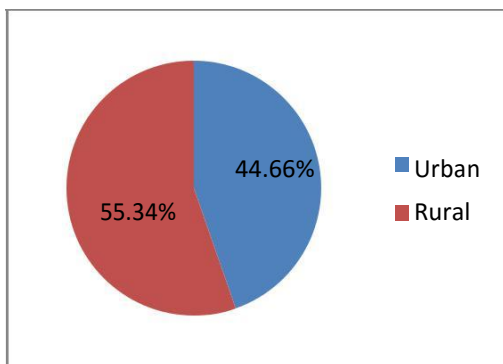
➤ Growth of unregistered sector leads to lower productivity-it has to be taken into account

➤ Land Acquisition Bill

RECOMMENDATIONS - FINANCIAL FACTORS

- The government and the financial Institutions must help to create MSME oriented SEZs, Hubs, clusters in rural areas

AREA-WISE SHARE OF MSMES



- Government Should set a platform for FDI investment in MSME
- Venture Capital Funds should be made available easily

| | |
|--------------|--------------------------------|
| India | 1200 cr (offshore) |
| china | 3000 cr |
| us | 29000 cr |

Enhance the flow
of Start-ups

- Scheme for Aid during Financial Crisis

CONCLUSION

India has the capability to push its manufacturing contribution to GDP to 25% by 2025. Government has to act as the central pivot of aligning industries, private companies, public sectors and all stakeholders in realizing this vision. Government has to put policies in place be it sector reforms, labour reforms or the elimination of business barriers. The Government of India has taken a number of steps to further encourage investment and improve business climate. „Make in India“ mission is one such long term initiative which will help to realize the dream of transforming India into a „manufacturing hub“. Hon’ble Prime Minister’s call for „zero defect and zero effect“ manufacturing resonates well with our industry as we grow and produce for the world. India’s expanding economy offers equal investment opportunities to domestic entrepreneurs and international players. It is our responsibility to leverage emerging economy.

