Chapter 9

Industrial Performance

Post 2008-09, the industrial sector, consisting of manufacturing, mining, electricity, and construction, showed remarkable recovery and steady growth for three years but lost momentum thereafter owing to a combination of supply-side and demand-side constraints. Industrial performance in 2013-14 remained lackluster for the second successive year. The latest gross domestic product (GDP) estimates show that industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of 0.4 per cent. While these figures may see upward revision once Annual Survey of Industries (ASI) data is available, there is no denying that industrial revival may take longer and needs stronger initiatives to emulate the peak growth achieved in the recent past. Further, it will be a daunting task to meet the projected Twelfth Plan targets of 10 per cent for the manufacturing sector and 5.7 per cent for the mining sector in the remaining three years.

9.2 Sector-wise analysis of industrial performance (see Figure 9.1) shows that the key reasons for poor performance have been contraction in mining activities and deceleration in manufacturing output. Manufacturing and mining sector GDP declined by 0.7 per cent and 1.4 per cent respectively in 2013-14. The underlying cause of the poor performance of these two sectors has been considerable deceleration in investment particularly by the private corporate sector during 2011-12 and 2012-13, a trend that appears to be continuing as the overall gross fixed capital formation (GFCF) has further declined during 2013-14. Registered manufacturing activities constitute about two-thirds of manufacturing and the remaining one-third consists of unregistered manufacturing activities. It has been observed that the share of

Key reasons for poor performance have been contraction in mining activities and deceleration in manufacturing output.

Figure 9.1 : Sector-wise Growth of Industry GDP (per cent)

unregistered manufacturing in GDP has been declining over time. While the share of registered manufacturing in GDP has increased from about 9.8 per cent in 2004-05 to 11.2 per cent in 2012-13, the share of unregistered manufacturing has declined from 5.4 per cent in 2004-05 to 4.5 per cent in 2012-13.

9.3 Further, slowdown in construction activities has resulted in capacity underutilization in the steel and cement sectors. Steel and cement consumption rose by just 0.6 per cent and 3.0 per cent respectively in 2013-14. Also, for the first time since 2001-02, diesel consumption contracted by 0.3 per cent during the year. Demand-side constraints, along with a combination of other factors, have resulted in contraction in output of the capital goods and consumer durables sectors. The two key manufacturing sub-sectors that had hitherto shown steady growth, namely the automotive and export-oriented gems and jewellery sectors, have posted negative growth rates during 2013-14. The positive highlights of 2013-14 were robust growth in textiles and electrical equipment as well as electricity generation notwithstanding capacity underutilization owing to fuel supply bottlenecks.

Demand-side constraints, along with a combination of other factors, have resulted in contraction in output of the capital goods and consumer durables sectors

9.4 In the sections that follow, the performance of key industrial sectors and sub-sectors is examined, based on the latest index of industrial production (IIP) estimates. IIP-based estimates are meant to serve as quick estimates of industrial performance and are not seasonally adjusted, therefore the data tends to overlook fluctuations or calendar effects. These estimates are not strictly comparable to annual ASI-based estimates or monthly HSBC India Manufacturing Purchase Managers' Indices (PMI).

IIP-BASED INDUSTRIAL PERFORMANCE

Mining and Power

9.5 Mining sector output contracted for the third successive year in 2013-14, declining by 0.6 per cent. Of the total value of mineral production (excluding atomic and minor minerals) in the country, the estimated contribution of coal and lignite, crude petroleum, iron ore, and natural gas (utilized) is about 92 per cent. Contraction in mineral index in the past three years has been mainly on account of lower or moderate production in all these major minerals. Coal contributes about 41 per cent of total mining sector output and its production growth has remained below-expectation due to structural issues discussed in detail in Chapter 11. Natural gas production has plummeted mainly due to declining production from the KG-6 basin. Output of iron ore declined in some parts following a court order. Iron ore mining has again been permitted but global prices of iron ore have declined significantly from the peak of 2011. Electricity generation increased by 6.1 per cent in 2013-14 as compared to 4.0 per cent growth registered in the previous year. Power generation has improved mainly on account of significant capacity addition made in recent years and robust increase in hydro-power generation during 2013-14.

Contraction in mineral index in the past three years has been mainly on account of lower or moderate production in coal and lignite, crude petroleum, iron ore, and natural gas.

Manufacturing

9.6 As mentioned in para 9.2, the drop in industrial growth had been mainly owing to deceleration in manufacturing as it constitutes about 60 per cent of industry GDP. In addition to a slowdown in fixed investment, several domestic and external factors such as higher interest, infrastructure bottlenecks, inflationary pressure leading to rising input costs, drop in domestic and external demand for some sectors have together contributed to low growth in the manufacturing sector. In contrast, world manufacturing gained strength in 2013-14. One possible reason for the contrasting performance of Indian and global manufacturing production is the upsurge in demand for consumer durables such as motor vehicles in the industrialized economies. The consumer durables segment index contracted by 12.2 per cent in 2013-14 as against a growth of 2.0 per cent during the previous year. The consumer durables segment, in particular the automotive sector, in India is constrained by a limited domestic market owing to low per capita income. Major items in the consumer durables basket of the IIP that declined during 2013-14 are gems and jewellery, passenger cars, colour TV sets, and telephone instruments. The gems and jewellery segment suffered partly due to restrictive gold imports. The consumer non-durables segment index increased by 5.0 per cent in 2013-14 in comparison with a 2.8 per cent rise registered in the previous year. The food products sub group index, consisting mainly of consumer non-durables, declined by 1.1 per cent on account of an 8.2 per cent decline in sugar production in 2013-14. The intermediate goods index has shown a 3.1 per cent increase in 2013-14 as compared to 1.6 per cent in the previous financial year. The performance of basic goods remained more or less the same as in the previous year.

In addition to a slowdown in fixed investment, several domestic and external factors such as higher interest, infrastructure bottlenecks, inflationary pressure leading to rising input costs, drop in domestic and external demand for some sectors have together contributed to low growth in the manufacturing sector

Broad sectors	Weight	2012-13	2013-14
Mining	14.2	-2.3	-0.6
Manufacturing	75.5	1.3	-0.8
Electricity	10.3	4.0	6.1
Use- based classification			
Basic goods	45.7	2.4	2.1
Capital goods	8.8	-6.0	-3.6
Intermediate goods	15.7	1.6	3.1
Consumer durables	84.6	2.0	-12.2
Consumer non-durables	213.5	2.8	5.0
General index	100.0	1.1	-0.1

Source: Central Statistics Office (CSO).

Table 9.1 : IIP-based Growth Rates of Broad Sectors/Use-based Classification (per cent)

Capital goods

9.7 The use-based industrial classification of IIP estimates identifies the capital goods segment as the weak performer in the manufacturing sector. The index of capital goods declined by 6.0 per cent in 2012-13 and further by 3.6 per cent in 2013-14 (Table 9.2). This segment has been hit by the steady deceleration in fixed investment in the past three years. The slow pace of mega projects implementation and a decline in the number of new projects has adversely impacted the capital goods segment. The fabricated metal products, machinery and equipment, and commercial vehicles segments are reeling under recession. During 2013-14, there was a decline of 16 per cent in commercial vehicles production. Only electrical machinery within the capital goods segment has registered 14.5 per cent growth in 2013-14 as compared to 0.6 per cent in 2012-13. As against the poor performance of the Indian capital goods sector, the global performance has been robust. Globally the five fastest growing manufacturing sectors in recent years have been (i) basic metal, (ii) radio, TV, and communications equipment, (iii) office accounting and computing machinery, (iv) electrical machinery and apparatus, and (v) transport. Another area of concern is the sudden dip in imports of capital goods during 2012-13 and 2013-14 due to economic slowdown and rupee

The use-based industrial classification of IIP estimates identifies the capital goods segment as the weak performer in the manufacturing sector

(per cent)

	2012-13	2013-14
Fabricated metal products	-4.7	-6.9
Machinery & equipment	-4.7	-4.7
Office, accounting, & comp. machinery	-13.9	-15.7
Electrical machinery	0.6	14.5
Motor vehicles, etc.	-5.3	-9.6
Other transport equipment	-0.1	5.9
Capital goods	**-6.0**	**-3.6**
Manufacturing	**1.3**	**-0.8**

Source: CSO.

Table 9.2 : IIP-based Growth Rate of the Capital Goods Sector and Its Constituents

depreciation. The imports of machinery, electrical machinery, transport goods and electronic goods have declined in the last two financial years. Capital goods imports declined by 3.4 per cent in 2012-13 and 14.7 per cent in 2013-14.

Performance of Eight Core Industries

9.8 From among the industries in the IIP basket, an indicative monthly index of eight industries—coal, fertilizer, electricity, crude oil, natural gas, refinery products, steel, and cement are 'core' in nature because of their likely impact on general economic activity as well as other industrial activity—is brought out, based on provisional production estimates for the month concerned.

9.9 The average growth rate of eight core industries was 5.0 per cent in 2011-12 and 6.5 per cent during 2012-13. The index of eight core industries grew by only 2.7 per cent during 2013-14. The moderation in growth occurred mainly on account of the negative growth witnessed in natural gas (-13.0 per cent) and crude oil (-0.2 per cent) and low growth in coal (0.7 per cent), fertilizers (1.5 per cent), and refinery products (1.7 per cent).

Corporate-Sector Performance

9.10 Continuing slowdown has impacted the performance of the corporate sector. While corporate debt levels have risen, earnings and profitability remained under pressure, pushing up debt coverage ratios. This has partly impacted the banking sector, with a concomitant increase in non-performing assets. Sales growth of the corporate sector, particularly in respect of listed manufacturing companies for the private sector, declined considerably from 25.3 per cent in Q1 of 2011-12 to 5.0 per cent in Q4 of 2013-14 (Figure 9.2), the latest quarter for which comparable sets of data are available.

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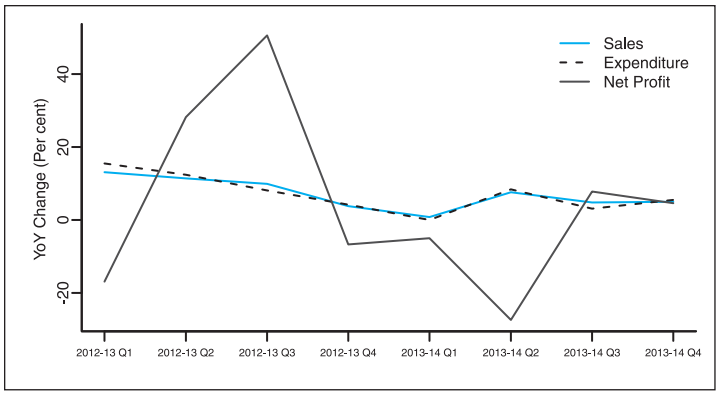

Figure 9.2 : Performance of Listed Manufacturing Companies in the Private Sector

9.11 Overall expenditure growth declined to 5.5 per cent in Q4 of 2013-14 as compared to 25.2 per cent in Q1 of 2011-12. This was primarily due to lower growth rates of raw material and staff costs. There was a significant decrease in the year-on-year growth of interest expenditure from 42.8 per cent in Q2 of 2011-12 to 10.5 per cent in Q4 of 2013-14. Pricing power, as measured by profit margins, has remained low since Q2 of 2011-12. The net profit to sales ratio has been in the range of 5-6 per cent for the last three years (i.e. 2011-12 to 2013-14). Net profit growth declined sharply in Q4 of 2012-13 owing to decline in sales growth. It showed improvement in Q3 and Q4 of 2013-14 after a sharp contraction in Q2 of 2013-14.

9.12 Capacity utilization (CU), as measured by the 24th round of the Order Books, Inventories and Capacity Utilization Survey (OBICUS) of the Reserve Bank of India (RBI) remained largely flat in Q3 of 2013-14. Although the current level of CU is lower than that in the corresponding period of the previous year, new orders witnessed substantial growth on both quarter-on-quarter as well as year-on-year basis. Finished goods inventory to sales ratio also declined in Q3 of 2013-14 over the previous quarter.

Box 9.1 : Progress in Implementation of the National Manufacturing Policy and Industrial Corridors

The Government of India had notified a National Manufacturing Policy (NMP) vide Press Note dated 4 November 2011 with the objective of enhancing the share of manufacturing in GDP to 25 per cent and creating 100 million jobs over a decade. The Policy specially focuses on industries that are employment intensive, produce capital goods, have strategic significance, and where India enjoys a competitive advantage besides small and medium enterprises and public-sector enterprises. The NMP provides for promotion of clusters and aggregation, especially through the creation of national investment and manufacturing zones (NIMZ). Till 2013-14, 16 NIMZs had been announced. Of these, eight are along the Delhi-Mumbai Industrial Corridor (DMIC). Eight other NIMZs have been given in-principle approval: (i) Nagpur in Maharashtra, (ii) Chittoor in Andhra Pradesh, (iii) Medak in Andhra Pradesh (now Telengana), (iv) Prakasam in Andhra Pradesh, (v) Tumkur in Karnataka, (vi) Kolar in Karnataka, (vii) Bidar in Karnataka, and (viii) Gulbarga in Karnataka.

DMIC

The DMIC project was launched in pursuance of a memorandum of understanding (MOU) signed between the Government of India and the Government of Japan in December 2006. The project, spanning the states of Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra along the Western Dedicated Freight Corridor (DFC) of the Railways, seeks to leverage the connectivity backbone provided by the DFC to create a strong economic base with a globally competitive environment and state-of-the-art infrastructure to activate local commerce, enhance investment, and attain sustainable development. The DMIC Development Corporation (DMICDC), incorporated in 2008, is the implementing agency for the project. The Japanese government has also announced financial support of US $ 4.5 billion for the project in the first phase with Japanese participation involving cutting-edge technology. The Master plans for all the nodes except the Dadri-Noida-Ghaziabad Investment Region in Uttar Pradesh have been completed and approved by the state governments. Land acquisition for the new industrial regions/ areas as well as for the early bird projects identified for development as model initiatives is in different stages of progress in different states. The DMIC Trust has taken investment decisions on nine projects and action to implement them has already been initiated by the DMICDC.

(ii) Chennai-Bangalore Industrial Corridor (CBIC)

The Chennai-Bengaluru-Chitradurga industrial corridor (around 560 km) will benefit the states of Karnataka, Andhra Pradesh, and Tamil Nadu. The Japan International Cooperation Agency (JICA) Study Team undertook the Preliminary Study for Comprehensive Integrated Master Plan for Chennai-Bengaluru Industrial Corridor (CBIC) and identified a total of 25 priority projects across various sectors aimed at removing infrastructural bottlenecks. Progress on these projects is being regularly monitored.

(iii) Bengaluru-Mumbai Economic Corridor (BMEC)

India and the United Kingdom have signed an MOU for the development of a new Bengaluru-Mumbai Economic Corridor (BMEC). A feasibility study has been undertaken by the consultants (M/s Egis India Consulting Engineers Pvt. Ltd. in joint venture with IAU ile-de-France and CRISIL Risk and Infrastructure Solutions Limited) and is scheduled to be completed during 2014. A joint steering group will be set up for the project after the feasibility study.

(iv) East Coast Economic Corridor (ECEC) including Vizag-Chennai Industrial Corridor (VCIC)

A concept note has been prepared by the Asian Development Bank (ADB) on an East Coast Economic Corridor linking Kolkata-Chennai-Tuticorin and it has been decided to initiate a feasibility study with the help of the ADB. In view of the commitment made by the central government under the Andhra Pradesh Reorganisation Act 2014, in the first phase of the study the ADB will focus on the Vizag-Chennai Section so that a final view on the Chennai-Vizag Industrial Corridor may be taken within the timeline prescribed in the Act and further action taken accordingly.

(v) Amritsar-Kolkata Industrial Corridor (AKIC)

The government has, in January 2014, accorded 'in principle' approval for setting up of an Amritsar-Kolkata Industrial Corridor (AKIC) along a 150-200 km band on either side of the Eastern Dedicated Freight Corridor (EDFC) in a phased manner. The proposed Corridor comprises seven states: Punjab, Haryana, Uttarakhand, Uttar Pradesh, Bihar, Jharkhand, and West Bengal. The government has also approved 'in principle' formation of an Amritsar-Kolkata Industrial Corridor Development Corporation (AKICDC). It is proposed to set up the AKICDC during 2014-15 to kickstart work on the AKIC.

Industrial Growth By Sectors

Micro, Small, and Medium Enterprises Sector

9.13 Manufacturing enterprises constitute 31.8 per cent of the micro, small, and medium enterprises (MSME) sector and service enterprises account for the remaining 68.2 per cent. About 55.3 per cent of these enterprises are located in rural areas. The MSME sector showed consistent growth of more than 11 per cent every year till 2010-11, whereas in 2011-12 the growth rate was 19 per cent and in 2012-13 about 14 per cent.

9.14 In the recent past the Prime Minister's Task Force on MSMEs and the Twelfth Plan Working Group on MSMEs have discussed issues related to the MSME sector. The Twelfth Five Year Plan policy framework is guided by the recommendations of these key committees. The Plan covers various aspects of the MSME sector and its key recommendations fall under six broad verticals: (i) finance and credit, (ii) technology, (iii) infrastructure, (iv) marketing and procurement, (v) skill development and training, and (vi) institutional structure. The Plan has a separate set of recommendations for the khadi and village industries and coir sectors.

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9.15 In order to boost the MSME sector, several schemes are operational. Some of the major initiatives taken for the development of this sector are: (i) Technology Centre Systems Programme; (ii) India Inclusive Innovation Fund; (iii) Credit Linked Capital Subsidy; (iv) Credit Guarantee Scheme; (v) Prime Minister's Employment Generation Programme; (vi) MSE-Cluster Development Programme; and (vii) Scheme for Extension of non tax benefits to MSMEs for three years. The government has also notified the Public Procurement Policy for Micro & Small Enterprises (MSEs) order 2012. The policy mandates that every central ministry/department/public sector-undertaking shall set a minimum annual procurement goal of 20 per cent of total product and service purchases from MSEs from financial year 2012-13 onwards, in a period of three years. Further, the policy has also earmarked a sub-target of 4 per cent of this 20 per cent for MSEs owned by Scheduled caste (SC)/Scheduled tribe (ST)entrepreneurs.

9.16 In view of the dwindling share of the informal sector in overall manufacturing it is critical to strengthen the MSME sector. Rejuvenating small businesses both in the formal and informal sectors is crucial for generating employment opportunities for the teeming millions in the coming years. It is therefore imperative to focus on key drivers. During 2013-14, an inter-ministerial committee (IMC), headed by the Secretary MSME, for accelerating manufacturing gave several recommendations for rejuvenating and boosting the MSME sector. The Ministry of Finance in collaboration with the Ministry of MSME, state governments, and private-sector stakeholders had also organized a workshop on small businesses in June 2013 to discuss the problems facing small businesses. Based on deliberations during the workshop, some of the action points are summarized in Box 9.2 to guide policy formulation in the coming days.

Rejuvenating small businesses both in the formal and informal sectors is crucial for generating employment opportunities for the teeming millions in the coming years.

Box 9.2 : Improving Business Environment: Short, Medium, and Long-term Steps

Over the next few years, the government, both at the centre and in states, has to consider ways of improving the business environment for small businesses. While the longer-term solution is a wholesale revamping of the laws and regulations governing business, a number of steps can be taken in the short term, and a number of policy experiments could be initiated.

Steps in the Short Run

1 Create a website with all the rules and regulations applicable to businesses across states and the centre. This would be an extremely important portal for the centre, states, and entrepreneurs, given that regulation is scattered. Ebiz set up by the Department of Industrial Policy and Promotion (DIPP) has already done some work which can be built on. Over time, the website can also carry best practices from across states.

2. Review the existing regulatory landscape for outdated regulations which can safely be done away with. A more ambitious task would be to create a model regulatory structure from first principles that initially could apply just to SMEs.

3. Strengthen grievance redressal mechanisms against inspections. For example, in Karnataka firms can successfully appeal and obtain redressal within three to five days. To help make the redressal process effective, ensure that copies of all documents generated in the inspection and redressal process are provided to firms.

4. Minimize human interaction and shift reporting/data submission to an online-only mode whenever possible, e.g. for routine registration, repeated filing of information, and reporting of information. The committee could work with Ebiz on this.

5. Shift important decision making from the inspector to higher-level officers, who are generally more trusted by firms. The inspector's remit would be to observe and document violations, while significant penalties could be the remit of senior officials.

6. Create a system for self-certification and third-party certification. Allow this to stand in for a wide variety of inspections of regulations deemed lower priority or less critical for public good. Follow a risk-management approach where only high-risk decisions/larger companies/companies that do not have a record of compliance are subject to frequent inspection.

7. Allow firms a time period to remedy faults/lack of compliance rather than penalize them immediately. The focus of inspections should shift from penalizing defaulters to helping them gradually comply with regulations.

8. The existing separation of land into commercial and residential plots is detrimental to setting up MSMEs. One solution would be to designate land for mixed use and make it available to micro-enterprises when they start out. Another would be to create pre-approved blocks in new industrial zones, where permissions for a wide variety of activities has been obtained.

9. A lot of land is held by developmental authorities, PSUs, and large firms. These land banks stay unutilized. The government could institute a 'use it or lose it' policy to free up locked land, which can be used for industrial estates, common facilities, incubators, etc.

10. Flexible choices should be offered to employees and employers that reflect the evolution and wider availability of social security and health benefits from providers like the New Pension Scheme (NPS) and Rashtriya Swasthya Bima Yojna (RSBY).

11. A coupon system could be introduced for purchase by employers who recruit and pay casual workers (daily, weekly, and other short duration or seasonal employment), with the price of a coupon including a premium for social benefits, to replace the cumbersome system of contributions and reporting that currently exists. It should be easy to attach a coupon to the Aadhaar number of the worker, thus obviating the need to file many forms.

12. Apprenticeships are currently stifled under an outdated and burdensome 1961 Act. The Apprenticeship Act should be rewritten / amended.

13. Amend the MSME Act of 2006 to provide a mechanism for the orderly handling of financial distress by introducing a temporary stay, followed by orderly and speedy liquidation, revival, or sale options.

Medium-term Steps

1. Get states to share best practices on business regulations and see what can form the basis for tried and tested regulatory change.

2. Based on these inputs, create a state-approved model regulatory structure that is available for businesses opening up in NIMZs. The model should include details on entry regulation, land/site allotment and development, regulations including labour, taxes, and safety/environment compliance norms including self-certification, third-party certification, deemed certification, and risk-based inspections, as well as conditions for exit.

3. States would of course have the freedom to depart from the model structure. Departures can be monitored to see what works.

4. A more permanent entity (along the lines of the Australian Productivity Commission) can be set up as the knowledge base for work on the business environment and the champion for change.

Long-term Steps

1. Indian legislation governing business needs to be thoroughly revamped. A committee could be constituted, with the mandate to propose a more streamlined and modern set of laws, especially in the areas of taxation, labour, environment, and safety. Preliminary work can be started here, but in controversial areas, the focus has to be on building consensus for the time being.

Central Public-sector Enterprises

9.17 In pursuing development objectives, the state has historically played a key role in industrial development through public-sector enterprises. State ownership can be justified where there are natural monopolies unsuitable for private enterprises, for social or developmental goals, to achieve investment returns for supporting budgetary objectives, and for national economic security. The central public-sector enterprises (CPSEs) play a significant role in the growing Indian economy. There were altogether 277 CPSEs under the administrative control of various ministries/departments as on 31 March 2013. Of these, 229 were operational and 48 under construction. The financial investment (paid-up capital + long-terms loans) in all the CPSEs stood at ₹ 8,50,599 crore as on 31 March 2013, showing an increase of 16.6 per cent over 2011-12.

9.18 The net profit of (149) profit-making CPSEs stood at ₹ 1,43,559 crore in 2012-13 while the net loss of loss-making (79) CPSEs stood at ₹ 28,260 crore. One CPSE made neither profit nor loss during 2012-13. The Oil and Natural Gas Corporation Ltd, National Thermal Power Corporation Ltd, Fertilizer Corporation of India Ltd, Coal India Ltd, and Bharat Heavy Electricals Ltd, were the top five profit-making CPSEs during 2012-13. Bharat Sanchar Nigam Ltd, Mahanagar Telephone Nigam Ltd, Air India Ltd, Chennai Petroleum Corporation Ltd, Hindustan Photo Films Manufacturing Co. Ltd, and Hindustan Photo Films Manufacturing Co. Ltd were among the top five loss-making CPSEs during 2012-13. There was a marginal increase in the total contribution of CPSEs to the central exchequer by way of dividend payment, interest on government loans, and payment of taxes and duties during the year, from ₹ 1,62,402 crore in 2011-12 to ₹ 1,62,761 crore in 2012-13. This was primarily owing to increase in contribution towards service tax and sales duty. There was, however, a decline in customs duty and excise duty.

Steel

9.19 India ranked as the fourth largest producer of crude steel in the world during 2013 after China, Japan, and the USA. India was also the largest producer of sponge iron in the world during 2013, accounting for 25 per cent of world production. During 2013-14 (provisional), India's crude steel production was 81.54 million tonnes (mt), an increase of 4 per cent over 2012-13 while crude steel capacity utilization stood at 82 per cent. In the last five years, domestic crude steel production grew at a compound annual growth rate (CAGR) of 7.9 per cent. Such an increase in production was driven by 9.8 per cent growth in crude steel capacity, high utilization rates, and a 7.0 per cent growth in domestic steel consumption. However, steel consumption increased by mere 0.6 per cent during 2013-14.

In the last five years, domestic crude steel production grew at a CAGR of 7.9 per cent. Such an increase in production was driven by 9.8 per cent growth in crude steel capacity, high utilization rates, and a 7.0 per cent growth in domestic steel consumption.

Textiles

9.20 India's textiles and clothing industry is one of the mainstays of the national economy. It is also one of the largest contributing sectors to India's exports, contributing nearly 11 per cent of the total exports basket. The textiles industry is labour intensive and employs about 45 million people. It has a major presence in the unorganized sector. The report of the Working Group constituted by the Planning Commission on boosting India's manufacturing exports during the Twelfth Five Year Plan (2012-17) puts India's

exports of textiles and clothing at US$ 64.41 billion by the end of March 2017. In global clothing exports, India ranked ninth as per World Trade Organization (WTO) data 2012 (latest), with China, the EU, and Hong Kong occupying the first three slots. In global textile exports, India ranked third, trailing China and the EU. The import content of India's textile exports is very low, limited to certain specialty fibres and accessories.

9.21 The Indian textile industry is vertically integrated from raw material to finished products, i.e. fibre to retail. The government has been providing liberal assistance to the sector under the Technology Upgradation Fund Scheme (TUFS). Under TUFS, since inception till 31 March 2014 investment of more than ₹ 2,50,000 crore has been made in the sector and ₹ 18,579.40 crore has been released towards subsidy. The Scheme for Integrated Textile Parks (SITP) is a strategic initiative to help set up integrated parks equipped with world-class infrastructure facilities in industrial clusters/locations with high growth potential. The proposal for continuation of the SITP Scheme in the Twelfth Five Year Plan with an allocation of ₹ 1900 crore, which includes an additional grant for apparel-manufacturing units under the SITP, has been approved by the Cabinet Committee on Economic Affairs (CCEA). An allocation of ₹ 300 crore was made in 2013-14, later revised to ₹ 140 crore, of which ₹ 111 crore was disbursed.

Investment in the Industrial Sector

Gross capital formation in industrial sector

9.22 As per provisional estimates of GDP at current market prices for the year 2013-14, the rate of GFCF has declined from 31.8 in 2011-12 to 28.3 in 2013-14. Even though detailed estimates of GFCF are not available for 2013-14, the overall decline in growth rates of fixed investment hints at further deceleration in investment in key segments of industry during the year. As per the latest data available on gross capital formation (GCF) by industry of use at constant (2004-05) prices, a sharp decline in the growth rates of fixed investment in mining, manufacturing, and the private corporate sector has been estimated. The decline is far steeper in unregistered manufacturing, pointing to paucity of funds available to informal-sector businesses. Sector–wise share in overall GCF shows that the share of unregistered manufacturing in overall GCF has declined from about 5.7 per cent in 2010-11 to 1.9 per cent in 2012-13. The share of registered manufacturing in total GCF has also declined from 29.6 per cent to 21.9 per cent during the same period (Table 9.3).

Even though detailed estimates of GFCF are not available for 2013-14, the overall decline in growth rates of fixed investment hints at further deceleration in investment in key segments of industry during the year.

Table 9.3 : Gross Capital Formation by Industry of Use at Constant (2004-05) Prices

	2009-10	2010-11	2011-12	2012-13
Rate of growth of GCF in industry (per cent)	24.2	20.2	-7.6	-8.5
Sector-wise share in overall GCF				
1. Mining	3.6	3.6	3.5	3.2
2. Manufacturing	32.9	35.3	27.4	23.7
a. Registered	27.8	29.6	23.5	21.9
b. Unregistered	5.1	5.7	3.9	1.9
3. Electricity	6.2	7	7.3	7.4
4. Construction	4.8	4.4	5.4	5.4

Source: CSO.

Foreign Direct Investment (FDI) Inflow

9.23 During 2013-14, total FDI inflows (including equity inflows, reinvested earnings, and other capital) were US$ 36.4 billion. FDI equity inflows were US$ 24.30 billion, showing an increase of 8 per cent as compared to the previous year. Cumulative FDI inflows from April 2000 to March 2014 stood at US$ 323.9 billion. Net FDI inflows were US$ 21.6 billion during 2013-14. In recent years, services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, automobile industry, power, metallurgical industries, and hotels and tourism are sectors that have attracted maximum FDI inflows.

Credit Flow to the Industrial Sector

9.24 In the absence of detailed investment and savings data for 2013-14, the data on gross bank credit deployment so far provides some hint on the status of investment in key segments of the industrial sector. As per the latest gross bank credit deployment data released by the Reserve Bank of India (RBI), deployment of credit to industries moderated in 2013-14, even as credit to agriculture and allied activities, services, and personal loans picked up. Gross bank credit deployment to medium and large industries has been comparatively lower in 2013-14. The credit flow to micro and small enterprises has, however, shown robust growth. Deceleration in credit growth has been observed in the mining, infrastructure, cement, coal, metals, and gems and jewellery sectors while in sectors such as food processing, construction, leather, rubber, glass, and paper a pick-up has been witnessed.

9.25 Overall credit flow to industry increased by 14.9 per cent in 2013-14, lower in comparison with the 20.9 per cent growth achieved in 2011-12 and 17.8 per cent in 2012-13. Credit flow to mining remained near stagnant at 0.05 per cent during 2013-14. In keeping with the performance of the power sector during 2013-14, credit flow to the sector rose by 24.9 per cent over the previous year. Looking at the individual sector-level credit absorption, petroleum, chemicals and chemical products, basic metals, transport, and all engineering sectors showed lower growth in gross bank credit flow during 2013-14 as compared to the previous year mainly owing to the slowdown in these sectors. Table 9.4 shows sector-wise growth of credit to industry by scheduled commercial banks.

(per cent)

Sectors	2011-12	2012-13	2013-14
Industries	20.91	17.84	14.97
Manufacturing	19.75	18.12	14.03
Mining	39.29	18.06	0.05
Manufacturing sub-sectors			
Food processing	14.06	24.06	30.24
Textiles	15.19	12.78	13.99
Petroleum & nuclear fuel	-12.47	10.75	1.86
Cement & cement products	17.32	21.77	21.37
Chemicals & products	23.66	18.63	17.84
Basic metals & metal products	28.53	20.91	17.75
All engineering	22.09	18.49	14.48
Transport equipment	23.19	14.12	11.95
Other industries	23.26	18.40	6.30

Source: RBI.

Table 9.4 : Growth of Credit to Industry by Scheduled Commercial Banks

Environment-Industry Linkages

9.26 To a large extent, environmental degradation is the result of market failure, that is non-existent or poorly functioning markets for environmental goods and services. In this context, environmental degradation is a particular case of consumption or production externalities reflected by divergence between private and social costs (or benefits). Lack of well-defined property rights may be one of the reasons for such market failure. On the other hand, market distortions created by price controls and subsidies may aggravate the achievement of environmental objectives.

9.27 The level and pattern of economic development in India, notably a diversified industrial structure based on a combination of large and small-scale industries and growing urban and rural population, have produced pressures on the environment. The manufacturing technology adopted by many industries has placed a heavy load on the environment, especially through intensive resource and energy use, as is evident in natural resource depletion (fossil fuel, minerals, timber), water, air, coastal and marine, and land contamination, health hazards, degradation of natural ecosystems, and loss of biodiversity. High proportion fossil fuel serving as the main source of industrial energy and major air-polluting industries such as petroleum refining, iron and steel, other metallic and non-metallic minerals extraction, fertilizers, and cement have contributed to a relatively high share in air and water pollution. Large quantities of industrial and hazardous wastes resulting from expansion of chemical-based industry have compounded the waste management problem with serious environmental health implications. Small-scale industries, especially foundries, chemical manufacturing, and brick-making, are also significant polluters.

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Labour Relations

9.28 Owing to constant endeavour of the industrial relations machineries of both the centre and states, the industrial relations climate has by and large remained peaceful and cordial. While the number of incidences of strikes and lockouts reported during 2008 was 421, this figure stood at 181(provisional) up to December 2013, exhibiting a declining trend over the period. Similarly, the figures for man-days lost were 17.43 million in 2008 and 3.29 million (provisional) up to December 2013.

9.29 As regards spatial/industry-wise dispersion of strikes and lockouts, there exist widespread variations among different states/union territories (UTs). Wages and allowances, bonus, personnel, retrenchment, and indiscipline and violence are major reasons for these strikes and lockouts.

Challenges

Reviving Business Sentiment to Boost Investment by the Private Corporate Sector

9.30 In view of the ongoing industrial slowdown, the policy focus needs to target key growth drivers in the short term. One of the crucial drivers can be the revival of private corporate-sector investment. Overall GFCF in the public, private corporate, and household sectors, that is investment in plant and machinery and construction, has slowed during 2012-13. Building a conducive investment climate and uplifting overall business sentiment require close coordination of industrial policy with fiscal, trade, FDI, and exchange rates policies. Allowing FDI in defence and some other sectors has huge potential for attracting large-scale investment and state-of-the-art technology. The existing special economic zones (SEZs) and newly set up and proposed NIMZs can multiply investment provided constraints are removed and a stable incentive structure is put in place. Promotion of industrial clusters for different sectors in different regions would also attract

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investment as clusters have the advantage of lower logistics costs, better supply-chain linkages, and easy access to labour and technology.

Removal of Infrastructure Bottlenecks

9.31 The current industrial downturn presents an opportunity to push ahead with critical reforms and remove infrastructure bottlenecks. The reform momentum needs to be accelerated to create a favourable climate for stronger growth in the medium and long terms. From the infrastructure-sector perspective, augmenting coal production, permitting commercial coal mining, restructuring power distribution, upgrading road and rail networks, reducing delays in regulatory approvals, land acquisition and rehabilitation, and solving financing constraints are some of the issues that require urgent attention. Steps are needed to upscale projects under public-private partnership (PPP) mode in order to attract private-sector investment in infrastructure. All these issues have been discussed in detail in Chapter 11.

Facilitating Growth of Small Businesses

9.32 The informal/unregistered segments of manufacturing have been performing below potential due to lack of adequate and low cost financing, rising input costs, competition from imports, and an unfavourable business environment in general. As discussed in para 9.2, the share of unregistered manufacturing value added in overall GDP is on the decline. The informal sector lacks easy access to credit and technology. The productivity gap between the informal and formal industry sectors remains large. The role of small businesses and the informal sector is of utmost importance in meeting employment-generation targets. Industrial policy need to focus on labour-intensive and resource-based manufacturing in the informal sector. Growth of the informal sector and small businesses is constrained by a large number of laws, rules, and inspections. Operational compliances are required individually for almost all activities carried out by small businesses. Because of the regulatory and fiscal burden, small businesses tend to avoid becoming medium and formal.

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9.33 State governments are formulating and implementing heterogeneous sets of regulations. Apart from inspections and compliances, insolvency provisions make it difficult to restructure and rehabilitate sick and dying businesses in the small and medium enterprises sector. Procedures to buy and acquire land are costly. Registration of land sale and purchase deeds, transfer of title, and acquiring of construction permits are complicated and time-consuming procedures. While some states have taken steps to promote ease of doing business in recent years, the majority of states are still far from having a friendly eco system for small businesses. India's 'Ease of Doing Business' ranking by the World Bank has gone down from 131 to 134 out of the 189 countries in 2014. There is need to build a consensus on best practices to be applicable to all states and to promote self-certification, e-filing, and e-returns.

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Need to Promote Structural Changes in Manufacturing in the Medium Term

9.34 Indian industry has immense potential for further strengthening the agro-processing, textiles and garments, and leather and footwear sectors with good prospects for sustained employment generation. But the medium-term challenge for Indian manufacturing is to move from lower to higher-tech sectors, from lower to higher value added sectors, and from lower to higher productivity sectors. Medium-tech industries are primarily capital intensive and resource processing and high-tech industries are mainly capital and technology intensive. In order to push the share of manufacturing in overall GDP to the projected 25 per cent, Indian manufacturing need to capture the global market in sectors showing a rising trend in demand. These sectors are largely high technology and capital intensive. Such high-tech industries may perform a less important role in sustaining employment but are critical for capital accumulation and skills development and for improving the knowledge base. To gain a firm footing in these sectors, the policy thrust should be on pushing up the level of public and private expenditure on technology upgradation, research and development, innovation, and skill development. Table 9.5 provides a comparative picture of the global competition India faces in manufacturing.

The medium-term challenge for Indian manufacturing is to move from lower to higher tech sectors, from lower to higher value added sectors, and from lower to higher productivity sectors.

Country	Share of manufacturing in GDP	Share of MHT in total manufacturing	MHT exports as total exports	Share of total exports in world exports
China	34.1	40.7	59.9	14.6
S. Korea	27.7	53.4	71.8	4.3
Thailand	36.6	46.1	58.0	1.5
Japan	20.5	53.7	79.0	6.0
Germany	19.2	56.7	72.0	10.4
India	14.9	32.2	27.0	2.0

Table 9.5 : Comparative Picture of Global Manufacturing Peers (2011)

Source: UNIDO & World Bank.
Note: MHT: Medium and high technology manufacturing.

Outlook

9.35 The near-term industrial upturn is conditional on continued improvements in the policy environment and a quick return to peak investment rates. With the improvement in overall macroeconomic environment, industry is expected to revive and growth can accelerate gradually over the next two years.

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9.36 The HSBC India Manufacturing Purchasing Managers' Index (PMI) increased marginally from 51.3 in April to 51.4 in May, 2014. It indicates some improvement in manufacturing activities and domestic and exports orders. Lead indicators for the first two months of the current financial year for power generation and production of cement, steel, fertilizers, and coal show improvement. Railways freight earnings and exports have also picked up raising hopes of increased industrial activity in the coming months. The index of eight core infrastructural supporting industries registered a growth of 4.2 per cent in April 2014 as compared to 3.7 per cent growth recorded in April 2013. Further IIP-based overall industrial growth was 3.4 per cent in April 2014 as compared to the 1.5 per cent growth recorded in April 2013.