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## MANUFACTURING SECTOR

SME WORLD Bureau

*GDP of India and China are likely to grow in their own ways. To be precise, in 15 years from the current period it has been assumed that China will have a more superior economy as it is leading in the total output in the world. On the other side, soon in the coming five years India will have superior investor returns comparing China. This is because of the augmented institutional development in India which is higher and more efficient than that of China.*

### India's Manufacturing Sector – Industry Speak

India's manufacturing sector is always a talking point and especially during elections. Everyone wants a booming economy with huge contribution from the manufacturing segment but seldom are the actions synchronized with this wish. The sector is contributing hardly 16% to our GDP. Smaller but developed countries like Germany and Japan have 21% and 20% contribution respectively. China boasts 30% contribution.

Leaders and politicians, political party manifesto and think-tanks talk about the need for this sector to make "India Shining", there are industry corridors being constructed, National Manufacturing Policy has been instituted but why don't we see any results at the ground level? We even have a National Manufacturing Competitiveness Program which few are truly aware. What is the state of the first phase of National Investment and Manufacturing Zone alongside Delhi-Mumbai Industry Corridor?

The key objectives of the National Manufacturing Policy are (a) Increase

the share of manufacturing in the country's GDP to 25% by 2022 and (b) Create 100 million additional jobs. These are ambitious objectives indeed.

At this juncture of impending general elections to be conducted in the month of April 2014, SME WORLD invited the specific views of some manufacturers on the sector and its constituents.

**Indian manufacturing scenario has been constantly compared with that of China with the latter demonstrating its superiority on almost all counts. What is your assessment of the Chinese ascendance - the contributing factors? Where does India lag the most and why?**

IE

China is a dominant player especially in the electronics sector and more so in the component sector in which our products fall. Chinese are very good when it comes to mass produced items as the economy of scale works to their advantage. As per our information the Chinese have good infrastructure and

have to face lesser hurdles in terms of rules and taxation. Indian manufacturer have a multitude of issues to contend with before they can put their product in the market. They therefore fall very short in the resulting competition. To name a few: Cost of finance, lack of infrastructure, multiplicity of rules and paper work, cost of basic needs like power and water, high taxation.

CC

GDP of India and China are likely to grow in their own ways. To be precise, in 15 years from the current period it has been assumed that China will have a more superior economy as it is leading in the total output in the world. On the other side, soon in the coming five years India will have superior investor returns comparing China. This is because of the augmented institutional development in India which is higher and more efficient than that of China. Considering the expected conflicts in China's economic and political systems, it can be inferred that a wide diversification of the investors is an essential factor that is required for a sustainable growth in the



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INTRON ELECTRONICS (IE)



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**Mridul Dhanuka**  
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**Rahul Agarwal**  
ORGANIC HARVEST (OH)

country's GDP.

As per industry sources, the Indian fine bone china and ceramic tableware industry's size is nearly Rs 700 crore including organised and unorganised segments. Due to anti-dumping duty imposed on China by European countries, the export demand for Indian players is now growing at a rate of 30-35% compared to earlier years. To meet this increasing demand, it is also expected that Indian players will double their production capacity and skilled labor will also be required. Skilled labor is the current issue that holds back the industry on developing path.

DA

China is known for its Economies of scale. While an Indian facility will be set up of 1x looking at the demand today in India, the Chinese will plan a size of 20x looking at the world market on day one. Moreover, there is a lot of government support on infrastructure in terms of reliable and uninterrupted power, general infrastructure of road and rail connectivity, and all these factors have contributed to the development of China's manufacturing sector. While China is famous for its cost effective products, it is also famous for its world class manufactures.

On the other hand, India also requires the same support from the government. Development in India is centered only in and around metropolitan cities and this is where we feel India is lagging behind. In the recent times, India's tier-II and tier-III cities have been major growth drivers for the country.

We appeal for Single Window working fundamentals to be active in trade practice. This would help increase the efficiency through time and cost savings for traders in their dealings with government authorities for obtaining the relevant clearance and permit(s) for say moving cargoes across national or economic borders.

OH

China got its edge in manufacturing because of its cost arbitrage advantage. In a global economy, I think, no country will have that cost advantage in 10-15 years from now. All the government subsidies will be at par at world economy level & the cost of labor and raw material will be same. India lagged



behind because of lack of infrastructure & transparent government policies. I believe, future will be for the ones, who put quality first.

**The average players in the manufacturing segment still operate in a labor intensive format. How is the labor availability and minimum wages issue impacting the profitability and survival of the businesses? What about availability of skilled work force? What kind of challenges are you facing? Do you think the country's education system and vocational training programs need any particular course correction to meet the rising challenges of skill gap?**

IE

In India we do focus more on labor intensive processes and although the minimum wages is not a hurdle the productivity of the average Indian labor falls short of international standards. There is a shortage of labor in mid level section like the ITI or diploma level. Also we find shortage of blue collar labor which is more attracted to the easy work of malls and BPOs. The education system has to be such that the children should be taught the practical basics rather than only the theory so that they can easily grasp the skills needed in a particular job and can attain competence in the field. Vocational training in the popular trades needs to be given so that even a plumber or carpenter gets up-to-date training and does the job systematically.

CC

Our industry was initiated from a pottery wheel to hi-tech machinery. This journey was really evolving journey for the industry. Till date, 50% processes are practiced by labor and is known as labor intensive industry. In India, labor shortage is the biggest issue and in our industry skilled labor is much expensive due to shortage. As of now maintaining minimum wages has not impacted the profitability because through the

technology the output cycle time is reduced and quantity and quality both are improved in the industry. Skilled Labor is the challenge because there is no world class learning platforms available in India to generate skilled labor. We have recently taken an initiative of setting up a Skill Development Center at our newly proposed plant in Jaipur.

DA

In an industry like manufacturing, the issue is profitability and not survival. Most Indian players in the manufacturing sector possess labor intensive units and not technology intensive. Labor availability & sustainability is quite expensive & complex which means that labor intensive businesses just survive, but profitability remains a challenge Today, technology has started playing a key role in all verticals say, Procurement, Production, Logistics, CRM, etc.

In India there is a huge gap between the



demand and supply of skilled labor and because of this gap, there are a few challenges that we face. Firstly we have to train him/her from the beginning. We also have to keep upgrading skills of existing workers for them to have clear knowledge of the industry and the products.

The education systems in our country along with the various vocational training programs are working towards meeting the rising challenges of skilled labor. However in my opinion, providing practical training to people is a very important aspect and I urge the education system to stress upon the same. Indians are famous for their

“Jugaad” and “ChaltaHai” attitude, which leads to unbaked knowledge and lack of appropriate skills for particular tasks.

OH

In the past, we trained our labor for general industry work, which led to a huge shortage of right kind of labor force. I believe, the work force, will need to be trained as per the industry needs. The manufacturing industry has undergone a huge change over the past few years, and the needs of the hour is to get the industry specific labor force & keep their skills updated by regularly training them.

We believe in following system, but the system has to run as per the norms and regulations without anyone's interference putting aside the personal interest. Equality on a particular industry of the country should be applied in terms of taxation regulations. In Rajasthan, On our industry 14% VAT is imposed while in Gujarat it is just 5 % VAT. This creates unnecessary competition within country. India is now at a phase where it can set at a leading position globally. Competing each other will never help us to think globally.

DA

Bureaucracy is one of the biggest challenges in India. In my opinion, all policy and guidelines should be made available in government portals along with all the paperwork and this shall ensure higher compliance.

OH

There should a single window clearance at every level. Starting from the point of setting up of business, till the business continues, the business owner should be made to knock on multiple doors. This will curb the corruption, as well as, lead to quick decisions.

**Deliberating on laws, another aspect is the lax state of our courts and judiciary system. In case of disputes, most companies prefer to absorb the loss or compromise rather than approach courts seeking resolution and possible compensation. This is also an advantage that deviant companies often exploit. What are your observation and opinion?**

**The number of laws and regulatory compliance for the sector is simply mind boggling. Tell us about your views on the same. How do you think the government can ease the process which ensures higher compliance with least interference of inspectors and curbs corruption in the system?**

IE

In India there is no incentive to grow. Most of the time it is difficult to scale up a successful operation due to the disproportionate increase in rules and regulation and the time consuming paper work. The SME thus prefers to remain small or branches out into multiple SMEs which is again detrimental to the growth. The government should first simplify rules such that they can be understood and followed by a common person. We should not require a CA or consultant for everything. There should be no duplication of records and audits. One balance sheet format should be acceptable to all the government agencies.



IE

Unfortunately the judicial system is being taken advantage of by the unscrupulous persons and is of no use to the person who is in the right. The time taken to deliver justice is so long that an honest person loses patience and so would rather not approach the court and absorb the losses or compromise. Even the straight forward cheque bouncing cases take so long to decide. The common man is completely disillusioned and does not think he can get justice in the courts.

CC

We believe that judiciary system provides us the fundamentals on what is right and what is wrong. It is a role of practitioners who makes things difficult for the others to walk right. One has to always trust and work tactfully to avoid such situations.

DA

I understand that there are some issues with the judicial system, but in cases of dispute, it is the company's personal choice to either absorb the loss or compromise rather than approaching the court. In my opinion, lack of IPR protection is a concern in India and also sometimes, the Indian Judicial procedures do take up a lot of time exceeding the possible compensation.

OH

I believe, there should a fast paced judiciary system. We can make the slabs, and according to slabs, can fix the time frame for dismissal of the dispute. This will lead to both accountability and transparency in the system.

**Infrastructure has been found to be a key component for economic resilience and excellence in many developed and emerging economies. How does poor quality of electricity, lack of good roads etc. hinder your business?**

IE

As we are in the business of high precision components and use very sensitive measuring equipments good quality uninterrupted power is a must. As this is not available we have to resort



to costly UPS which adds to the cost of our products. Also due to the spikes and other problems there have been cases where our equipment has got damaged. Lack of good and well maintained roads causes us embarrassment when we have visitors especially foreign ones come to our factory.

CC

Basic infrastructure at an affordable cost is the key growth factor for any industry and for country too. Day-by-day increasing price of fuel, power and gas is affecting the business a lot. Margins have already shrink to last level in any Industry. For growth, companies do not have funds derived out of its profits and so taking support of FIIs and Banks at a cost which then is imposed to the customers only. This creates a situation where customer loyalty is affecting and loyalty cycle is reducing very heavily.

DA

Infrastructure is definitely one of the key components for economic resilience and excellence in any economy; however every economy at the same time faces challenges as well. Issues with electricity and roads do hinder our business sometimes, but then these are problems faced by every company.

OH

For any country to develop, developed infrastructure is the utmost priority. In India, on average, we spend at least 4X time on road, as compared to any other developed country. Our industry still don't have uninterrupted power supply, leading to increase in the cost of production. Unless these problems are solved, we will always remain in a Catch-22 situation, of producing quality products and maintaining cost at the same time.

**Credit availability and funding issues are routine struggles for**

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**manufacturing companies. There are cases of delayed payments from buyers though the statutory payments have to be made on time. How are companies suffering due to these issues and what is the possible recourse? How do you think banks should approach the subject of credit facilitating to manufacturing concerns? Please suggest some constructive intervention approach to address this challenge.**

IE

The micro and small scale enterprises are supposed to be paid within 45 days but some of the big companies mention a payment terms of 120 days which have to be accepted if we want orders. I feel banks should offer factoring services to the small scale sector and the interest after 45 days should be recovered from the big customer.

CC

Looking at company's transaction pattern, its finance team can work on regular fund requirements and banks should keenly look at helping such companies. Especially, the MSMEs are witnessing fund shortage because of late collection cycle. Banks should come up with innovative schemes for MSMEs with the partnership of Government to safeguard the MSMEs and provide them the growth opportunities.

DA

If we have a good credit information system accessible publicly, this issue could be resolved easily. Any individual, having a poor history in terms of payment, would not be given credit. I think this information in the hands of companies can ensure good recovery from their buyers. For me this would probably be the biggest improvements. Also, if there are better insurance and laws to ensure recoveries from creditors, this will help ease a lot of capital.

**Competitiveness is taking a whole new meaning. Everyone wants goods at a cheaper cost but superior quality. And on the other hand input costs are rising -labor, material, operational overheads like freight cost, electricity. The situation is negatively skewed in favor of businesses. How will they stay ahead of the curve and survive?**

IE

Competition is here to stay and many times it is not even fair competition. Sometimes it could be from the grey market or from industries deliberately flouting rules but to survive the market we have to live with it. Our strategy for this is the give more value for money. We give very good quality so that the customer has no alternative to our products when they need precision.

CC

Yes competition may lead to this situation but it is not always true in all cases because competition for the superior quality is still in demand and people pay for it. It is input cost that makes difference on price and quality both in a specific category of products. This situation brings best products and price options to the customers and they can decide their choice. This is going to remain long lasting because the industries are now also competing globally unlike earlier. In relation to our industry, where the products are homogeneous in nature – the companies/brands are thus required to undertake 'value addition' approach with their products instead of price-wars and other unhealthy practices in the name of competition.

DA

I agree that everyone these days wants good quality products at low cost, but I firmly believe in the fact that for right quality, you have to pay the right price. These days, despite the fact that the cost of raw materials is increasing, there are vendors focusing on long term quality. Someone offering quality products would definitely charge a premium.

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OH

Technology is the only solution to this. We will have to optimize our operations at a level, where quality products can be produced at minimum cost. With the help of technology, we can track the data on a real time basis & take quick decisions. Innovations are only possible, when we use the technology in a right manner. As long as we keep innovating, and keep challenging the said rules, we will be able to survive, and grow. There is only one constant in business, i.e "Change".

**How do policy flip flops and arbitrary decisions affect business operation in India? What has been your experience over the years? What changes would you like to see?**

IE

In India your profit margins or for that matter your whole business depends on the luck factor. Being a technical person I know this sounds very ..... but the fact remains that it is impossible to plan very far for a business in India. The policy and rules change and there is no consistency or predictability in it. You might quote for an export order based on today's scenario but cannot guarantee that when you get the order the costing would remain same. And hence the luck factor.

CC

Due to highly competitive business environment, Jugaad in business has taken a key role. Arbitrary decisions results miraculously if the resulted into positive response. But if it has failed, business may face tough situation and it may also reach to a dead end. As per our experience, business is a wind, to sail the business boat, one has to always look at the wind direction and should either hold back or sail. I believe, industry should have a ecosystem of helping each other with the government support. This change will help to set a business platform for India at Global stage.

DA

It does pose as a challenge at times, but one has to comply with the law of the land. A few regulations needs revisions, but the industry has to get together and raise the issue to the Government, only then the changes would happen and that too gradually.

OH

Arbitrary decisions shake the confidence of the businessmen. We have many examples in India, where the businesses suffered because of short-term decisions of the government and arbitrary policy change. Tax dispute in Vodafone case is the latest example of the same. The company was left with no option, but to pay the money or leave the country.

**What are your prime expectations from the government that will assume office after the next general elections?**

IE

First and foremost - stability and a will to make changes for the better. The new Government should take good policy decisions and execute them in a quick manner and not keep things hanging. There is need for timely actions not just talk.

CC

Reduction in VAT and providing an ecosystem to uplift the industry at global stage.

DA

Like everyone else, we are hopeful that better infrastructure facilities would be made available to the manufacturing sector and clear policies. We are also hopeful that issues like mal-practices including bribery, cartelization are taken seriously

OH

My expectation from the government to have a long-term view, of at least 50-100 years to come. Don't take decision keeping only today's problems in mind. We have a very long road to travel, if India wants to become a super power by 2050. The government should involve the businesses in their every decision, which affect the business directly. The government should consider businessmen as their allies.



## Clay Craft India Pvt. Ltd.

An ISO (9001:2008) certified company, Clay Craft (I) Pvt. Ltd. is India's fastest growing manufacturer and retailer of bone china and ceramic tableware in its segment. Established in 1994, the company has emerged as India's leading player with **over Rs. 150 crore** turnover in household and hospitality segments. Company's core competency lies in its extensive network across India. With nearly 10,000 retail counters and over 150 channel partners, the company also enjoys partnership with major retailers like Big Bazaar, Home Center, Lifestyle, Spencer, HomeShop 18 etc.

Clay Craft's state-of-art production facility situated at Jaipur, Rajasthan, has a production capacity of 110,000 pieces per day. The main production line is tuned to handle large volumes of Bone China crockery in a variety of shapes and combinations. Starting from a range of 100 ml to 500 ml Mugs, set of Cup & Saucers, various combinations of Tea/Coffee sets, Dinnerware for six persons serving and serving for eight persons in combination of 18 pieces to **124 pieces**.

Company is headed by the co-founders Padam Agarwal and Rajesh Agarwal. Padam Agarwal handles Marketing & Finances, while Mr. Rajesh Agarwal heads the Administration & Technical aspects of the company.

Clay Craft has been awarded by FEPA Expo awards 2007, in both the Gold and Silver categories. In the same year, it was also awarded the 12<sup>th</sup> Madan Gopal Bhagat award. It also won the Screen Printing India award in 2004. Company is renowned for its superior quality products and the technological advancement of its production facility.

The company's esteemed corporate clients



## Dhanuka Agritech

Dhanuka Agritech is a leading Agrochemical Company engaged in formulation of wide range of pesticides covering herbicides, insecticides, fungicides, miticides, plant growth regulators / stimulants which are used to protect crops from pests, insects, and diseases that affect crops. These products are used in all major crops produced in our country. Dhanuka is primarily a marketing company and our USP is the wide range of products in our portfolio of over 83 brands which has the ability to serve almost all the crop categories, across the country. We are particularly strong in Paddy (Rice), Soybean & Tea crops. Dhanuka Agritech was set up in the year 1980 and we have been in the business for the last 34 years now. Internal accruals were the original source of funding.

Dhanuka has pan-India presence through marketing offices in all major states in India, with a network of almost 7,500 distributors/ dealers selling to over 70,000 retailers across India and reaching out to more than 10 million farmers in over 550 districts. We currently have 34 Branch Offices/Warehouses, More than 83 Products and 400 SKUs

Company is working on advanced prediction software which would help us ensure the availability of 400 SKUs at 7500 stock points with more than 90% reliability. The ultimate target segment is the Indian Farming Community across rural India.

The Company has three manufacturing units located at Gurgaon (Haryana), Sanand (Gujarat) and Udhampur (J&K). The Company is setting up a fourth unit at Keshwana (Rajasthan), with an investment of 45-50Cr. The fourth plant is being set up to triple its current manufacturing capacities. Construction is in



full swing and it is expected that the plant will be operational by FY 2014-15.

Dhanuka Agritech Limited, has been listed as among '200 Best Under a Billion Companies in Asia Pacific' for the third time by FORBES magazine in the year 2010, 2011 & in 2013.

The company was recently awarded the INC. India Innovative 100 Award: 2013 in recognition of smart innovation for the newly launched product – Lustre and the 'Inc India 500 India's fastest growing Companies under INR 1,500 Cr. for two years in succession: FY 2010-11 and FY 2011-12.

It is ranked 533 in the prestigious list of 1,000 Most Valuable Companies across India by Business Today in 2013. The previous ranking was 634.

### About Mridul Dhanuka

Mr. Mridul Dhanuka is an Engineer (Chemical Engineering) with a Master's degree in Business from NITIE, Mumbai. He has an experience of over 9 years managing Production facilities. He got associated with the organization in 2007 and has served the Company by introducing new product ranges and production of new molecules with his technical expertise, which resulted in enlarging the product base of Dhanuka. He successfully implemented Cost Control measures and helped in streamlining the Production & Raw Material procurement process. He has been instrumental in bringing about technological and managerial excellence for Dhanuka Agritech Limited in Operational areas. In a short duration, he has streamlined the process, systems and procedures in place and established robust Quality Control which has made Dhanuka Agritech touch newer heights of success & recognition.

## Organic Harvest

Organic Harvest is India's only homegrown brand with an entire range of organic skin care products which speak of nature in its purest form. The brand has been launched with a motto that "human body is a part of nature and only nature possesses the secrets to preserve its beauty". The art and science of pure plant and flower essences formulate the core of Organic Harvest.

### Beginning of the beauty revolution

Chemicals are for laundry, not for skin. This incredible thought provoked Mr. Rahul Agarwal to kick-start this journey of discovering nature and matching it with beauty. Gradually, after two long years of accurate research and development, Organic Harvest was brought into existence in June 2013 to promote the concept of safe skin. An intelligent use of plants grown without pesticides and chemicals instigated the name 'Organic Harvest' where products are not natural, but organic.

### The Creations

Organic Harvest specializes in hair care, body care and skin care products that are safe and highly effective. To keep the skin miles away from damage, no harsh chemicals are used; instead, the raw materials that are used are certified by global organizations like EcoCert, OneCert & Natrue. The certification is evidence that the raw materials used for manufacturing Organic Harvest products are derived from plants that have been grown without chemical fertilizers, herbicides and pesticides. Their products range from daily day cream, anti-wrinkle cream, anti-pigmentation cream, scrubs, sunscreen lotion, toners, face wash to shampoos and 16 varieties of essential oils. None of the



products are tested on animals because they believe animals are also a part of nature. Organic Harvest beauty products formulate the best and the most necessary elements from the nature without using Parabens, Phthalates, mineral oil, PABA, petrolatum, paraffin or animal ingredients. Drawing its inspiration from the beauty and vitality of human skin, Organic Harvest is a union of nature, science and innovation.

### The burgeoning aura of Organic Harvest

The brand has quite effortlessly captured the markets of Delhi-NCR, Punjab, Mumbai, Pune and Nagpur. By March end, Organic Harvest will also be launched in Nashik, Chennai, Bangalore and Hyderabad. The brand has recently launched its first outlet in V3S Mall, Laxmi Nagar in Delhi. The aim is to open 3-6 exclusive Organic Harvest stores in leading malls and high street markets in the next 3-4 months. Organic Harvest also plans to launch its products across the rest of Maharashtra, Goa, Rajasthan, Madhya Pradesh and West Bengal within next six months through multi-brand stores and exclusive Organic Harvest stores to increase the total retail presence to 1,000 outlets.

### About Rahul Agarwal, CEO, Organic Harvest Company

Agarwal spent 5 years working at Ernst and Young before turning into a serial entrepreneur. Despite having no prior experience of the personal care industry and being strongly discouraged by several industry stalwarts owing to the hugely competitive nature of the beauty segment in India, Agarwal was determined to develop a good quality product with a reasonable pricing. Rahul Agarwal's vision was clear; to provide the best quality personal care products and promote the concept of safe skin.