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MANUFACTURING SECTOR IN INDIA

India Sector Notes

May 2014

Indian manufacturing sector at a glance

15.1%

Manufacturing Contribution in GDP

52.5

Manufacturing Purchasing Manager's Index in February 2014

7.5%

CAGR of Manufacturing IIP Between 2005–06 and 2012–13

$183.7 billion

India's Manufacturing Exports (2012–13)

36%

Share of Engineering Goods in Total Manufacturing Exports

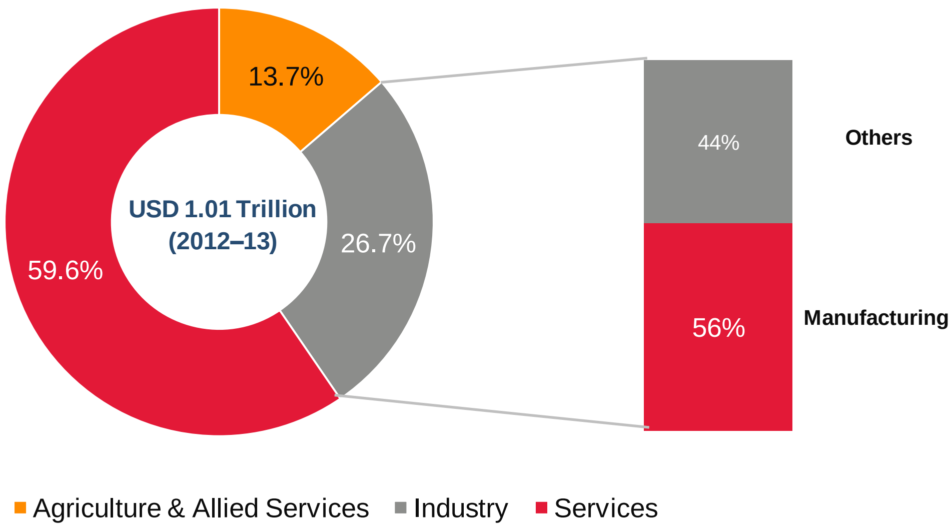
7.65

India's Manufacturing Competitiveness Index Score – 2013

India aims to create 100 million skilled jobs in manufacturing by raising its GDP share to 25% by 2022 from 15% currently

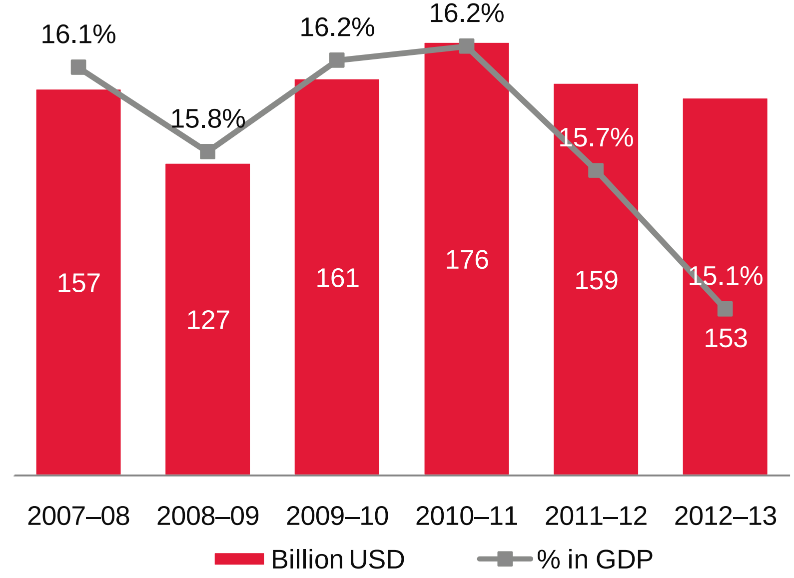
SECTORAL COMPOSITION OF GDP (CONSTANT PRICES)

(USD trillion, %)



MANUFACTURING CONTRIBUTION IN GDP

(USD billion, %)



- The contribution of India's manufacturing sector has remained stagnant in the past few years.
    - Slowing external and domestic demand has caused the manufacturing sector to move at a slower pace than the overall economy for some time now

- However, the government's national manufacturing policy (NMP) aims to boost growth and ramp up its share in the country's GDP to 25% and create 100 million jobs by 2022.

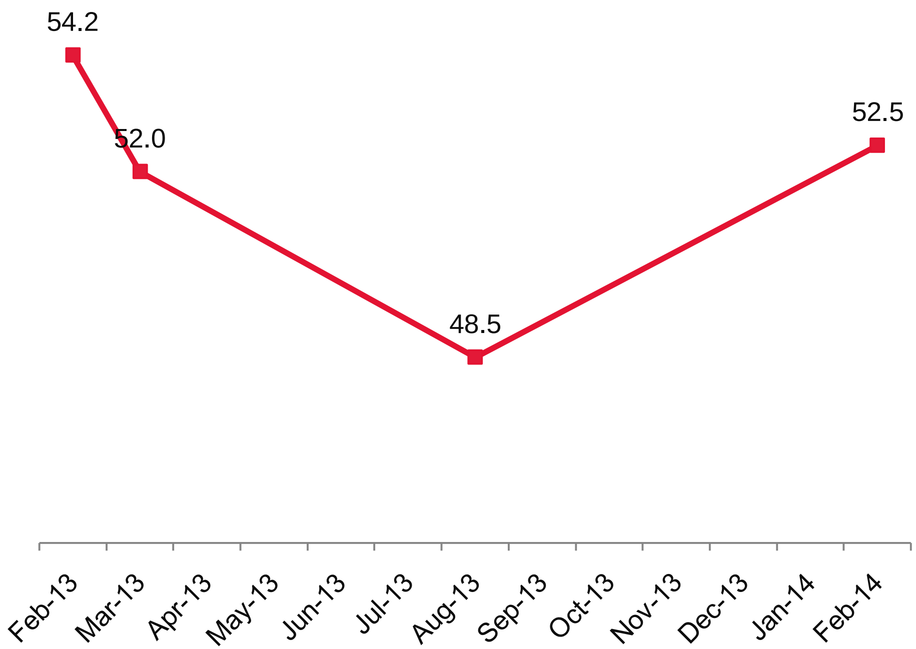
- India's rising demand, opportunities for organizations to invest and grow, favorable policies, and the tendency to establish low-cost plants by MNCs are few of the reasons that would lead the sector to achieve higher growth.

Source: *RBI, Indian Express, Business Line, Aranca Analysis*

Rise in new order flows cause HSBC Purchasing Managers’ Index (PMI) for manufacturing to rise to a one-year high of 52.5 in February 2014

MANUFACTURING PURCHASING MANAGERS’ INDEX (PMI)*

(Units)



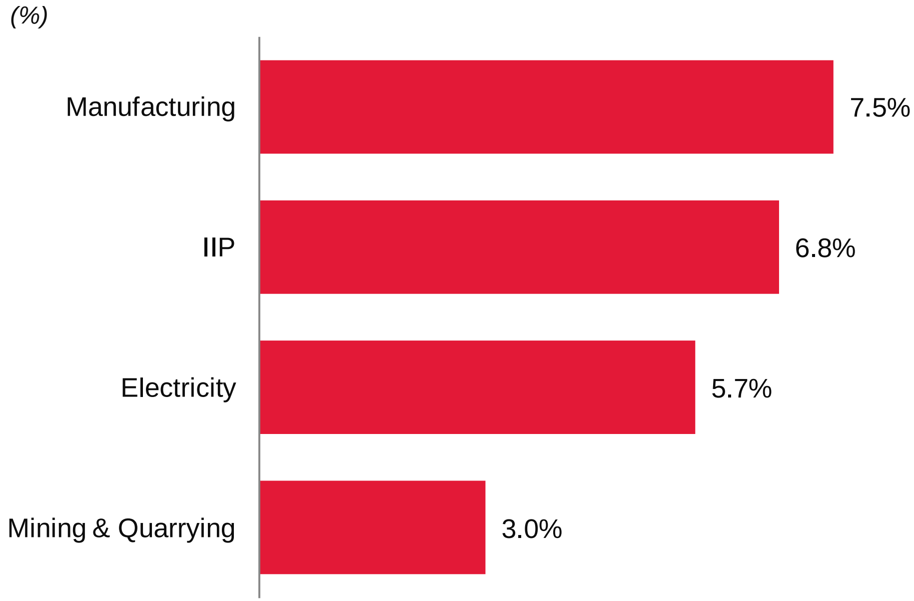
- Manufacturing activity continued to remain buoyant in 2014 due to rise in domestic and export orders, improvement in external demand, and reduction in macroeconomic uncertainty.
    - Consumer goods segment was the best-performing sub-sector of the manufacturing economy, leading the rise in output and new orders.
    - Operating conditions improved for producers of intermediate goods, but remained unchanged in the capital goods category.
- The recovery in activity is likely to face challenges going ahead due to structural constraints and underlying inflation pressures on the Indian economy.

Source: *HSBC*

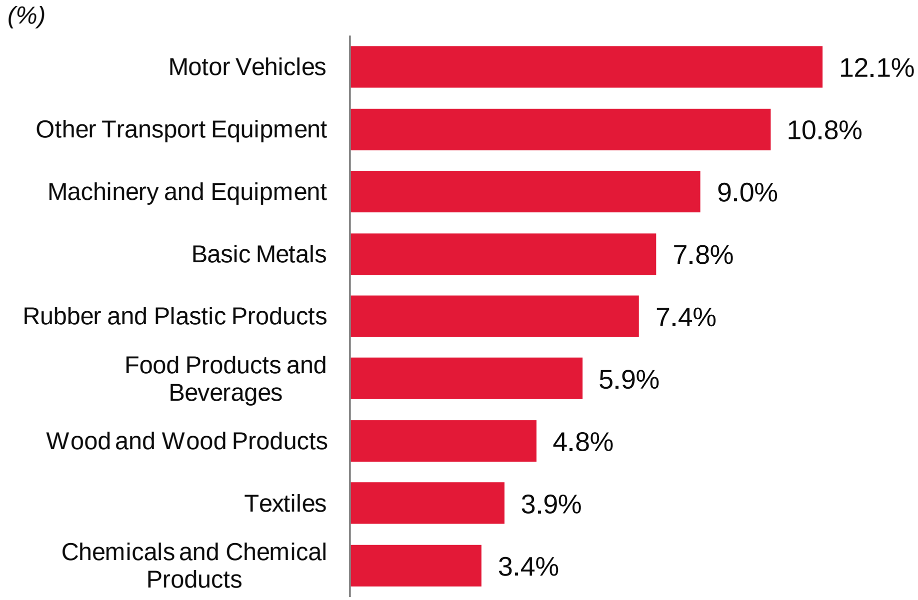
Note: *The HSBC’s India Manufacturing Purchasing Managers' Index (PMI) is a measure of factory production. Anything below 50 signals a contraction, while a figure above 50 suggests growth.*

Most industries within manufacturing exhibit positive CAGR between 2005–06 and 2012–13

CAGR OF IIP AND ITS SEGMENTS (2005–06 t o 2012–13)



IIP CAGR OF KEY SUB-SEGMENTS (2005–06 to 2012–13)



- Index of Industrial Production (IIP) witnessed high growth between 2005–06 and 2012–13, primarily due to positive growth in the manufacturing sector which accounts for 75.5% share (weightage) in IIP.
  - With a CAGR of 7.5% between 2005–06 and 2012–13, the manufacturing sector helped the industrial sector recover from low growth in the other two sub-segments of IIP: Mining and Quarrying (14.2 weightage in IIP) and Electricity (10.3 weightage in IIP).

Source: *Central Statistics Office, Aranca Analysis*

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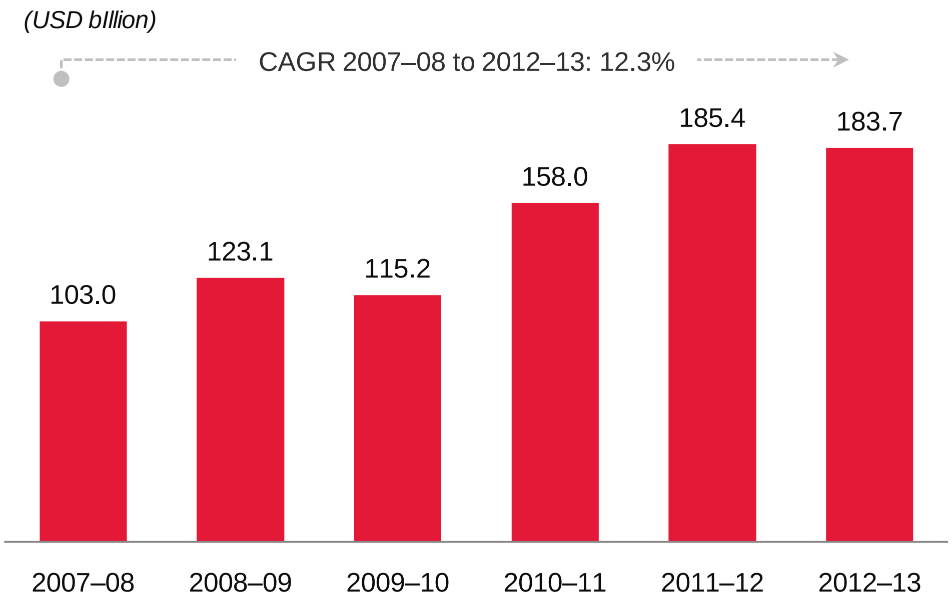
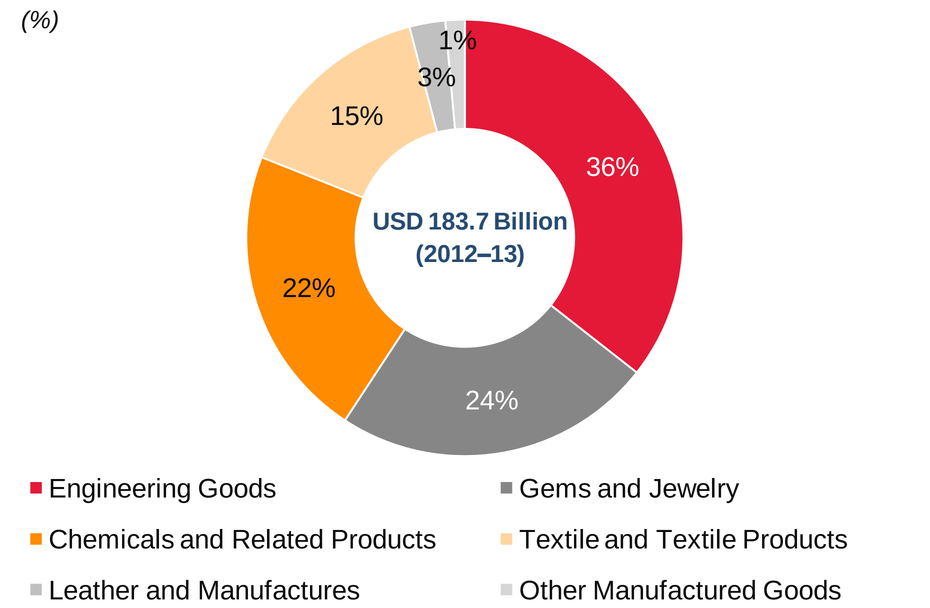
Export of manufacturing goods increases at a CAGR of 12.3% between 2007–08 and 2012–13, with 36% share of Engineering goods in 2012 – 13

MANUFACTURING GOODS EXPORTS



MAJOR COMPONENTS OF EXPORTS



- Engineering goods and transport equipment are the fastest growing sub-sectors, followed by electronic goods and machinery. Gems & jewelry and chemicals are other sectors with high growth rates.
- The main export markets for Indian manufacturing goods are the US and Western Europe; within Western Europe, Germany and the UK are the two most important export markets.
  - The Middle East is also a key destination for Indian goods, with the UAE being a major market for Indian gems and jewelry, chemicals, and engineering goods.

Source: *RBI*

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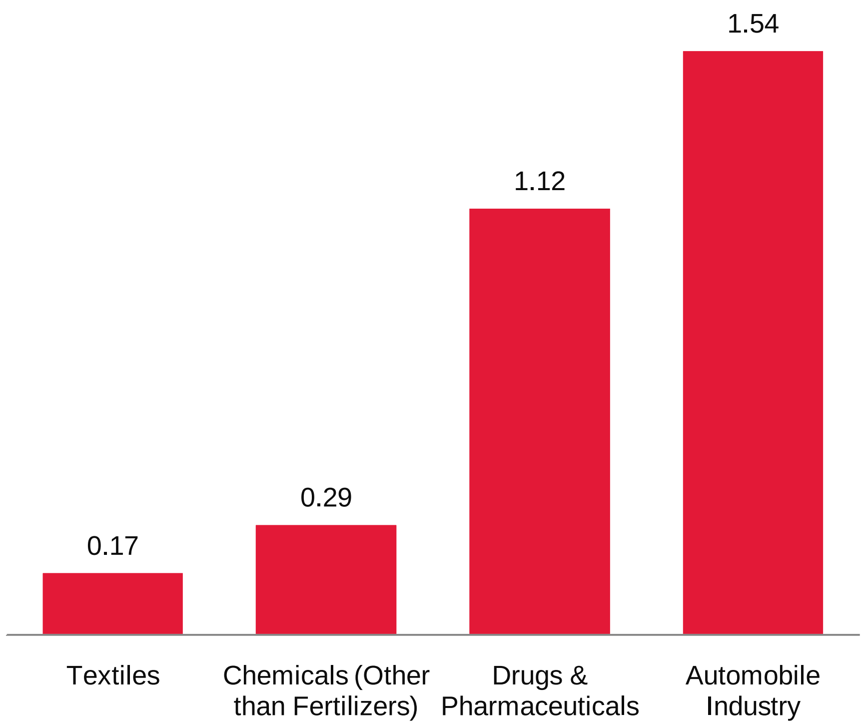
India attracted total FDI worth USD 22.4 billion in 2012-13; automobile, pharmaceuticals, chemicals and textiles are few of the major beneficiaries

SECTORS ATTRACTING HIGHEST FDI INFLOWS (2012-13)

(USD billion)



- Widening growth across economies and gradual opening up of capital accounts in the emerging world has resulted in a steep rise in cross border investment flows in India.
- The government favors FDI as it has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports, and long-term economic development of the country.
- MNC's are now increasingly looking to invest in India, as they are considering the nation as the low cost manufacturing base with abundance of labor supply.

Source: *Ministry of Commerce & Industry*

Growing investments, competitive edge over China, growth in consumer segment, and signs of recovery in manufacturing are some of the key trends

KEY TRENDS

Growing investments

- MNCs are increasingly investing in India to scale up their operations. For instance, Daimler invested USD70.21 million in a new facility, Cummins opened a third manufacturing facility in Phaltan, and Britannia Industries Ltd opened its first manufacturing unit in Gujarat.
- India is being seen as the global destination for engineering design, prototype development, and manufacturing hub for high technology products.

India gains competitive edge over China

- In recent times, the operating costs in China have risen, primarily due to increased wages and appreciation of Chinese Yuan. Thus, manufacturers are shifting their operations from China to India. For instance, Havells, Godrej, Micromax, Bosch, and ITC are some of the companies who have shifted to or are exploring manufacturing operations in India.

Growth in consumer segment

- Consumer goods are continuing to outperform the other market groups, with increase in output and new orders registered. Operating conditions improved for companies in the intermediate goods category, but deteriorated for those in the capital goods category.

Signs of recovery in manufacturing sector

- In March 2014, India witnessed increase in new export orders, highest since April 2011. Overall, activity in the manufacturing sector expanded for the fifth consecutive month in March. This increase demonstrates improved demand conditions in the country's key export markets. Further, inflationary pressures eased and purchasing activity increased, thereby demonstrating improved performance of the manufacturing sector.

Source: *RBI, Business Line, Economic Times, HSBC, Aranca Research*

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Low labor cost, rise in orders, and government initiatives could drive growth; high interest rates and complex regulatory framework are key challenges

KEY GROWTH ENGINES

- **Decrease in labor cost:** The cost of labor in India is cheaper than in many other countries, thus providing competitive advantage to the country's manufacturing sector.
- **Increase in competiveness against China:** Gaining competitiveness against Chinese manufacturers due to currency fluctuations and soaring operational cost in China are offering growth opportunities for the Indian manufacturing sector.
- **Rise in export and domestic orders:** Manufacturing activities have gradually risen due to new export orders and increased domestic demand in the recent past.
- **Ease in tax reforms:** The interim Indian budget 2014–15 proposed changes in indirect taxes, which includes factory gate tax to be reduced to 10% from 12% on some capital goods and consumer durables as well as excise duty cut on small cars, two wheelers, and commercial vehicles to 8% from 12%. Such tax amendments would boost manufacturing activities.
- **Creation of National investment and manufacturing zones (NIMZs):** The Indian government has agreed to form five NIMZs outside the Delhi-Mumbai industrial corridor (DMIC) region. This would enable to increase manufacturing activities in a balanced approach across the country. The selected zones are Nagpur, Maharashtra; Tumkur, Karnataka; and Chittoor, Medak, and Prakasam in Andhra Pradesh.

KEY GROWTH INHIBITORS

- **Increase in interest rates:** Consumer buying as well as cost of capital for corporations are adversely impacted due to higher interest rates. Despite RBI measures, the interest rate is higher and is hampering the demand and business operations in the manufacturing sector.
- **Rise in operational difficulties:** Increase in energy and raw material prices is the key challenge faced by the companies in the Indian manufacturing sector.
- **Complex regulations, legislations, and taxation:** Foreign manufacturing companies are less keen to come to India due to its complex regulatory framework. India ranks 132nd among 185 countries classified as easiest place for doing business.
- **Low confidence due to delay in approvals:** A number of projects are halted due to delay in approvals for land acquisition and initiating a project. This has led to low confidence among investors.

Source: *PwC, Government of India Ministry of Commerce & Industry, Business Today*

Indian manufacturing sector witnesses rise in investments due to its competitive advantage over other countries, including China

LATEST DEVELOPMENTS AND INVESTMENTS

Company	Project	Total Investment	Location
Srithai Superware	Srithai Superware, producer of melamine tableware, plans to set up a manufacturing plant .	USD 38 million	Gujarat
Blue Star Limited	The company plans to set up its new manufacturing plant for room air-conditioners and deep freezers.	USD 25 million	Karnataka and Seemandhra
GlaxoSmithkline (GSK) Plc.	British drug maker has plans to set up a new factory, which would employ at least 250 people.	USD 143 million	Bangalore
Daimler India Commercial Vehicles Pvt. Ltd (DICV)	The company announced plans to set up a bus manufacturing plant at its facility. The new plant, expected to be completed by Q2 2015, would initially have a capacity to manufacture 1,500 buses, which can be increased to 4,000 units.	USD 70 million	Oragdam near Chennai
Corning Inc	Corning Inc has decided to set up an optical cable manufacturing facility. The investment would be done through its Indian arm Corning Technologies India Pvt Ltd. Maharashtra government has facilitated a five-year window to make the investment.	USD 107.7 million	Chakan near Pune
Parker Hannifin India	Parker Hannifin India has set up a new factory to manufacture components for a wide range of industries.	USD 18.32 million	Chennai
Starrag India	Starrag Group has set up a machining plant in Bangalore via its subsidiary Starrag India, which would focus on building WMW machining centers in India.	USD 10.99 million	Bangalore
Shanghai Hitachi Electricity Appliances Company	Shanghai Hitachi Electricity Appliances Company, a joint venture (JV) between China-based Shanghai Highly Group and Japan-based Hitachi Appliances, has plans to manufacture air-conditioning compressors and relevant refrigeration products for the Indian and West Asian markets.	USD 91.58 million	Gujarat

Source: *Economic Times. The Hindu Business Line. Business Standard*

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The current average capacity utilization is around 74%; Textiles and Leather sectors expected to post a strong growth going ahead

CAPACITY UTILIZATION (FEBRUARY 2014 FICCI SURVEY)

Sector	Q4 2012–13	Q1 2013–14	Q2 2013–14	Q3 2013–14
Auto	73%	72%	60%	70%
Capital Goods	68%	70%	70%	70%
Cement	77%	75%	73%	65%
Chemicals	74.5%	77%	78%	79%
Textiles	81%	80%	78%	83%
Electronics & Electricals	58%	56%	60%	60%
Food Products	80%	75%	86%	80%
Leather & Footwear	73%	82%	71%	80%
Metals	66%	63%	70%	70%
Textiles Machinery	NA	NA	60%	60%
Tire	NA	NA	60%	60%
Petrochemicals	NA	NA	NA	95
Paper	NA	NA	NA	80

- The current average capacity utilization as reported in the FICCI survey is around 74% in Q3 2013–14, which is marginally up from 70% in Q2 2013–14.

SECTORS WITH HIGH GROWTH EXPECTATIONS

Sector	Growth Expectations
Electronics & Electricals	⬇
Capital Goods	⬇
Automotive	⬇
Machine Tools	⬇
Cement	⬇
Tire	⬇
Paper	⬇
Steel & Metals	▬
Chemicals	▬
FMCG/Food Products	▬
Textiles Machinery	▬
Petrochemicals	▬
Textiles	⬆
Leather & Footwear	⬆

- Leather and Textiles sectors are expected to post a strong growth, above 10%, going ahead (Strong > 10%; 5% < Moderate < 10%; Low < 5%)

⬇ Low ▬ Moderate ⬆ Strong

Note: *FICCI's quarterly survey gauges the expectations of manufacturers for Q-4 (January-March 2013-14) for fourteen major sectors namely textiles, capital goods, metals, chemicals, petrochemicals, cement, electronics, automotive, leather & footwear, machine tools, food processing, paper and tyre. Responses have been drawn from 330 manufacturing units from both large and SME segments*

Source: *FICCI, Aranca Analysis*

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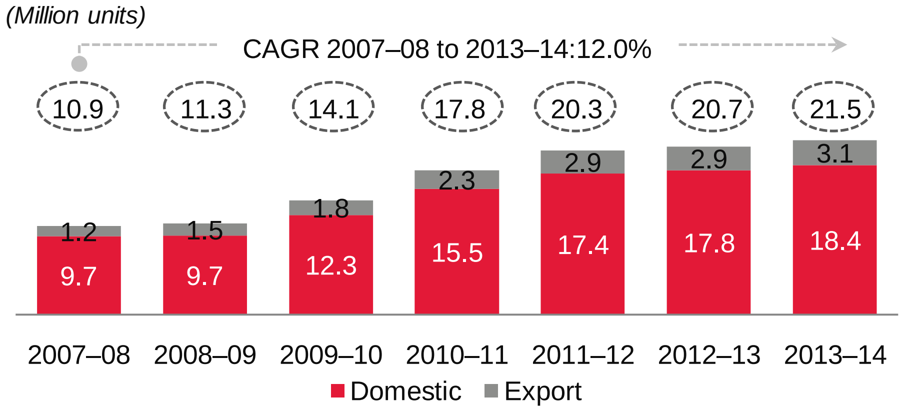
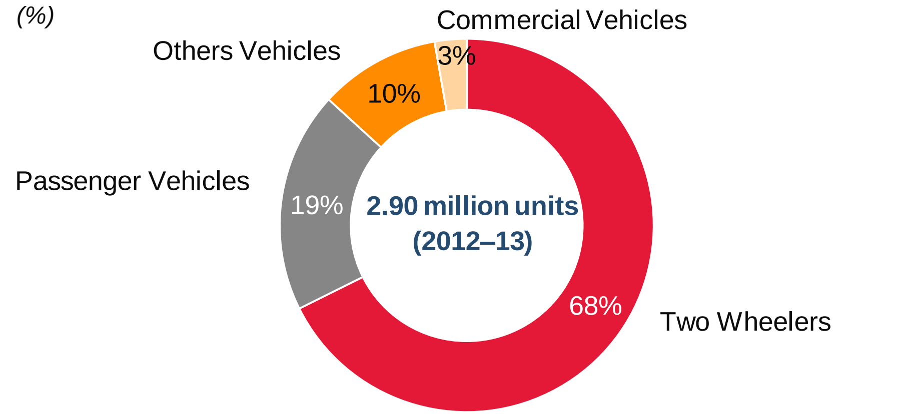
Size of domestic automotive market has increased from 9.7 million units in 2007-08 to 18.4 million unites in 2013-14

DOMESTIC & EXPORT AUTOMOTIVE MARKET



EXPORT AUTOMOTIVE SALES BY VEHICLE CATEGORY



TOP INDUSTRY PLAYERS BY SEGMENT

Segment	Company Name	Market Share in Domestic Market
Passenger Vehicles	Maruti Suzuki	39%
	Hyundai	14%
Commercial Vehicles	Tata Motors	53%
	Ashok Leyland	27%
Two Wheelers	Hero Motor Corp.	42%
	Honda Motorcycles	19%
Other*	Bajaj Auto Ltd.	42%
	Piaggio	34%

FUTURE TRENDS AND DRIVERS

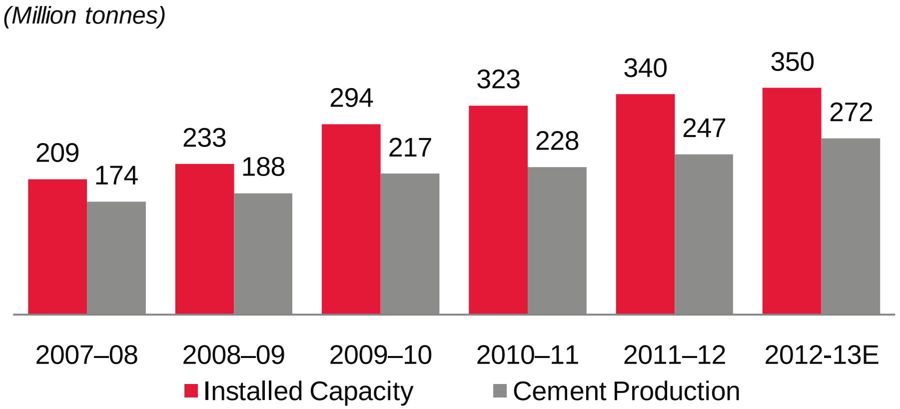
- Despite economic slowdown, the Indian automotive industry is expected to rise at a CAGR of ~10% between 2013 and 2016.
  - Factors such as rising income, rise of the middle class, and an expanding young population are expected to make India the third-largest automotive market globally by 2016, ahead of Japan, Germany, and Brazil
- India has higher potential to attract investments due to significant cost advantages in terms of manufacturing, availability of a large pool of skilled manpower and a growing technology base as well as favorable government policies.

Source: *Society of Indian Automobile Manufacturers (SIAM), JD Power report on Indian Auto Industry, March 2013*

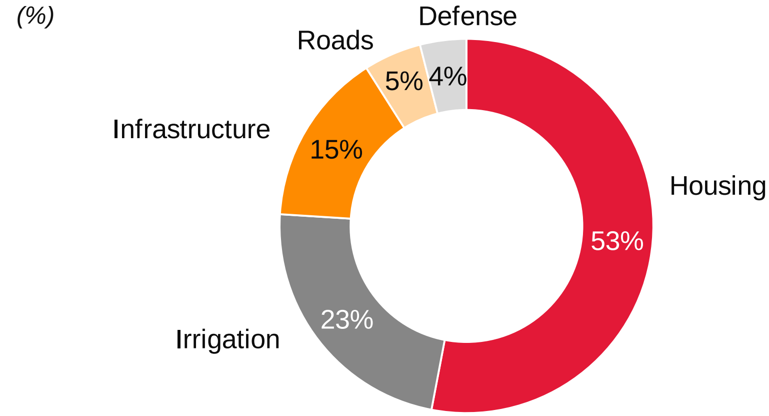
**Other vehicles include tractors, trailers, three wheelers (passenger vehicles)/LMV and other miscellaneous vehicles which are not classified separately*

Housing segment receives ~53% of India's cement

CEMENT INSTALLED CAPACITY & PRODUCTION



ESTIMATED DOMESTIC CEMENT DEMAND BY SEGMENTS



INDICATIVE LIST OF TOP INDUSTRY PLAYERS

Company Name	Market Share (2011)
Ultratech Cement	18%
ACC	11%
Ambuja Cement	10%
Jaypee Cement	8%
Shree Cement	5%
Others	48%

The Indian cement industry is fragmented, with more than 100 players

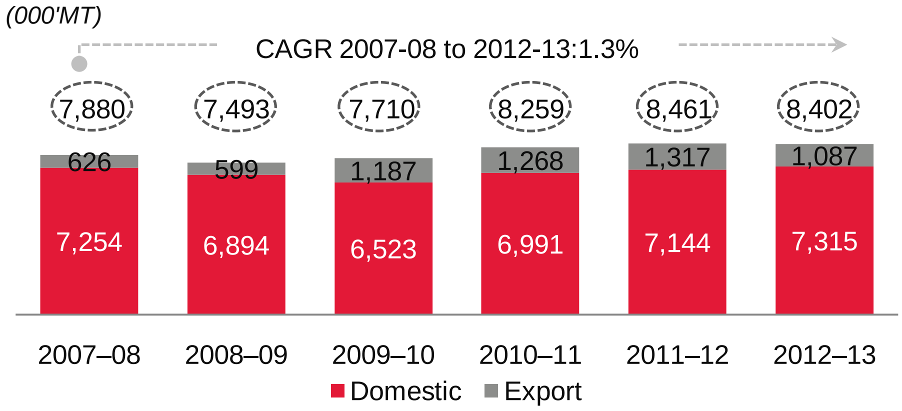
FUTURE TRENDS AND DRIVERS

- The Planning Commission's Working Group on Cement Industry for the 12th Five Year Plan (2012–17) has fixed the cement production target at 407 million tonnes for 2016–17.
- With strong growth expected in rural housing, roads, and railways, cement demand growth is likely to improve from 5% in FY13 to 7% in FY14.
- The government's focus on strengthening infrastructure, promotion of low-cost affordable housing, and establishment of special economic zones (SEZs), among others, is expected to drive cement demand.

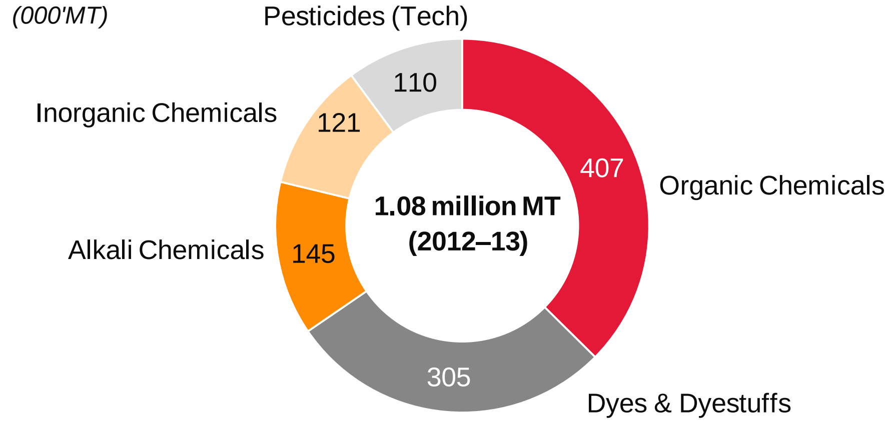
Source: *Cement Manufacturers Association Annual Report 2012-13, ACC Investor Presentation August 2012*

Chemical exports increase at 11.7% CAGR between 2007–08 and 2012–13

DOMESTIC & EXPORT MARKET OF MAJOR CHEMICALS*



EXPORT MARKET OF CHEMICALS BY CATEGORY



INDICATIVE LIST OF TOP INDUSTRY PLAYERS

Company Name	Indicative List of Main Products
Tata Chemicals	Soda ash, salt, marine chemicals, caustic soda, cement,
United Phosphorus Ltd	Agrochemicals
Nirma Ltd	Alkyl benzene, alfa olefin sulfonate, sulfuric acid, soda ash
Gujarat Heavy Chemicals	Soda ash
Gujarat Alkalies and Chemicals	Caustic soda

FUTURE TRENDS AND DRIVERS

- Increasing regulatory requirements and raw material price fluctuations are posing challenges for manufacturers; however, the export segment, which expanded at a CAGR of 11% between 2007–08 and 2012–13, is looking attractive.
- Domestic growth in the chemicals industry would be driven by increase in consumption and high growth in end-user industries, where per capita consumption is currently low. Key end-user industries such as construction, automotive, packaging, and electronics are expected to drive demand immensely.

Source: *Ministry of Chemicals & Fertilizers, Dept. of Chemicals & Petrochemicals*

**Includes only major chemicals*

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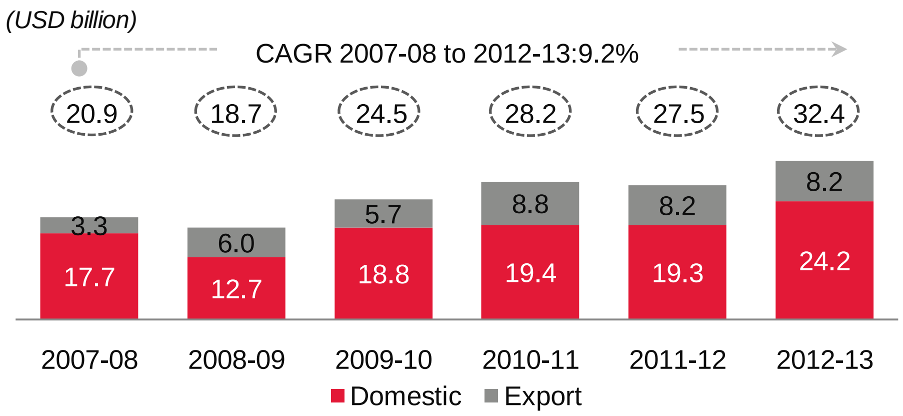
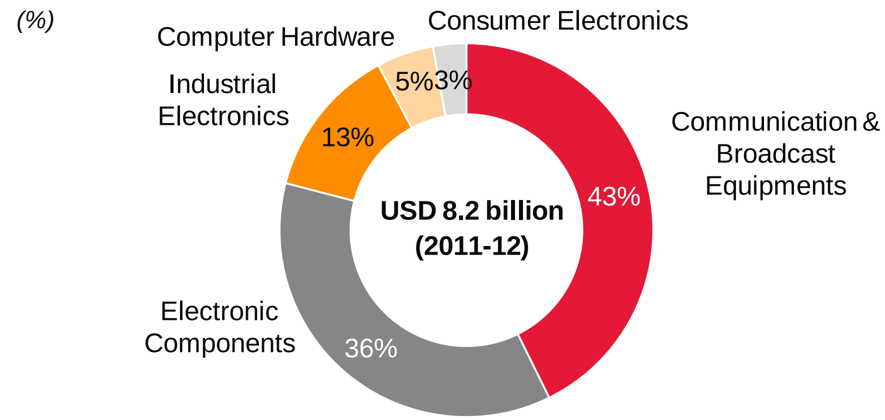
Size of domestic electronics market has increased from USD 17.7 billion in 2007-08 to USD 24.2 billion in 2012-13

VALUE OF ELECTRONICS HARDWARE PRODUCTION



EXPORT OF ELECTRONICS PRODUCTION BY CATEGORY



INDICATIVE LIST OF PLAYERS IN ELECTRONIC INDUSTRY

Company Name	Indicative List of Main Products
Videocon	TVs, DVD players, microwave ovens, refrigerators, washing machines, ACs, power backup solutions
LG	TVs, audio visual solutions, computers, mobile phones, refrigerators, washing machines, microwave ovens, vacuum cleaners, ACs
Samsung	TVs, home theater systems, DVD players, computers, mobile phones, refrigerators, washing machines, microwave ovens, digital cameras, ACs
HCL	PCs, PC servers, storage solutions, display products, other electronic products

FUTURE TRENDS AND DRIVERS

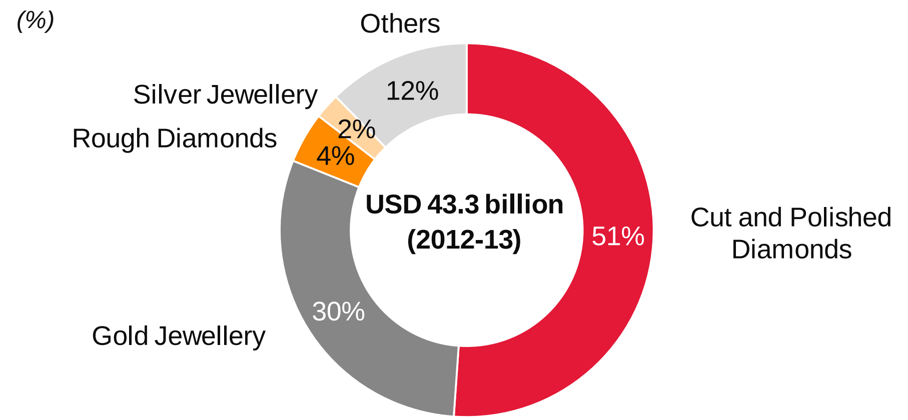
- India's production of electronic goods is estimated to reach USD104 billion by 2020 due to growing demand from households and enhanced government support.
- Introduction of National Policy on Electronics (2012) is likely to result in investment of about USD 100 billion and employment to around 28 million people at various levels by 2020.

Source: *Electronics and Information Technology, Annual Report 2012-13*

During 2012–13, the gems and jewelry market accounted for 14% of the total exports

DOMESTIC AND EXPORT GEMS & JEWELRY MARKET

EXPORT GEMS & JEWELRY SALES BY SEGMENTS



KEY INDUSTRY (RETAIL) PLAYERS

Company Name	Business Areas
Reliance Retail	Jewelry
Damas Jewellery	Jewelry
Gitanjali Gems Ltd.	Gems and Jewelry
Swarovski	Jewelry
Diamond Trading Company	Gems and Jewelry
Gold Souk India	Gems and Jewelry

India's gems and jewelry market comprises 500,000 players, majority being small in size, making the industry highly unorganized and fragmented.

CURRENT AND FUTURE TRENDS AND DRIVERS

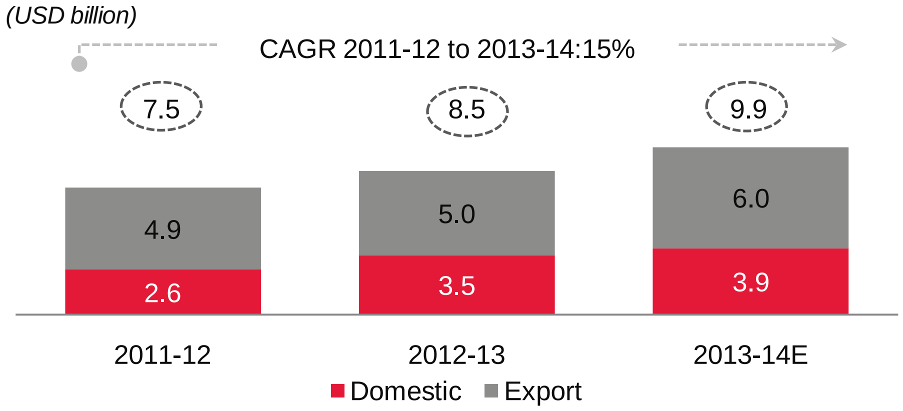
- India's gems and jewelry market is one of the leading contributors in terms of exports. During 2012–13, the gems and jewelry market accounted for 14% of the total exports.
- By 2018, the domestic gems and jewelry market is expected to grow between USD 91.5 billion to USD 97 billion due to factors such as increase in disposable income of consumers, gold seen as an investment option, etc.

Source: *Federation of Indian Chambers of Commerce and Industry (FICCI); ONICRA report, Nov 2013; Invest India*

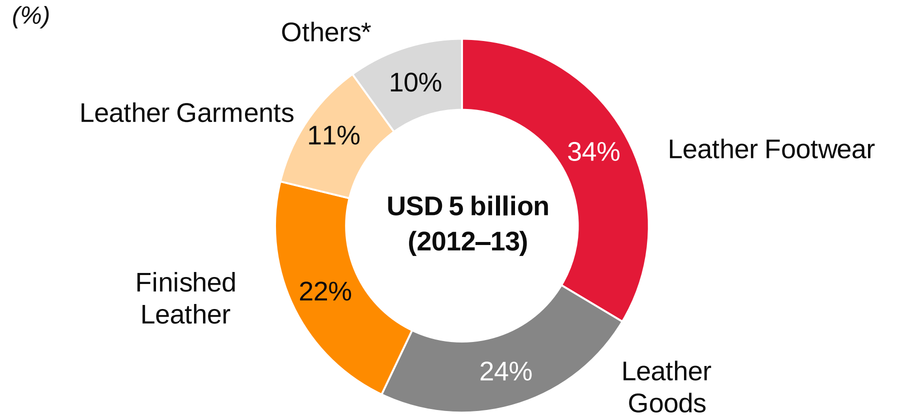
**Others includes gemstones, gold, and silver in wrought and semi-manufactured forms*

India's leather exports likely to reach USD14 billion by 2016–17

TURNOVER OF LEATHER AND LEATHER PRODUCTS



SHARE OF LEATHER PRODUCTS IN EXPORT



INDICATIVE LIST OF BRANDS SOURCED FROM INDIA

Product Segment	Brands
Footwear	Acme, Ann Taylor, Bally, Charter Club, Clarks, Coach, Colehann, Daniel Hector, Deichmann, DKNY, Double H, Ecco, Elefanten
Leather Garments	Armani, Zegna, Abercrombie & Fitch, Marco Polo, Mango, Colehaan, Andre Maarc, Guess Pierre Cardin, Tommy Hilfiger
Leather Goods/ Accessories	Coach, Liz Claiborne, Harrods, Yves St. Laurent, Tommy Hilfiger, Etienne Aigner, Geoffrey Beene, Marks & Spencer, Guess, Next, Pierre Cardin

Source: *Council of Leather Exports, Leather Sector Skill Council (SSC)*

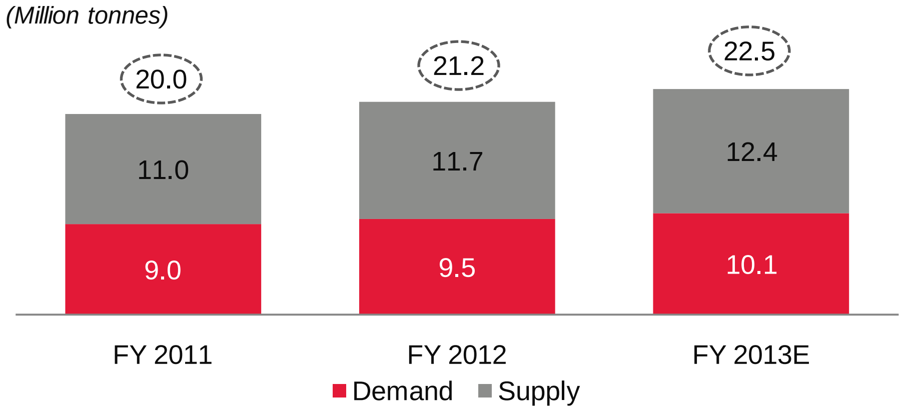
FUTURE TRENDS AND DRIVERS

- India's leather exports are estimated to grow 20% to USD6 billion by 2013–14, and may reach USD14 billion by the end of the 12th Five Year Plan (i.e., 2016–17).
- The growth in demand is driven by the fashion (especially footwear), furniture and interior design, and automotive industries, among others.

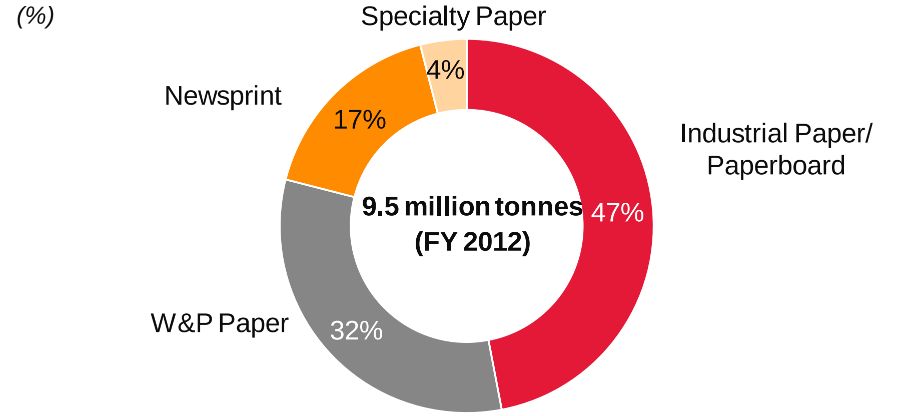
**Others include Non-leather Footwear and Saddlery & Harness*

Industrial paper/paperboard accounts for ~47% of overall paper industry demand

DEMAND AND SUPPLY OF PAPER AND PAPERBOARD



PAPER DEMAND BY SEGMENT



INDICATIVE LIST OF LARGE PLAYERS

Company Name	Installed capacity
Bellarpur	758
ITC	655
Century Textiles	414
TNNL	400
West Coast	320
Rainbow	305
Khanna Paper	303

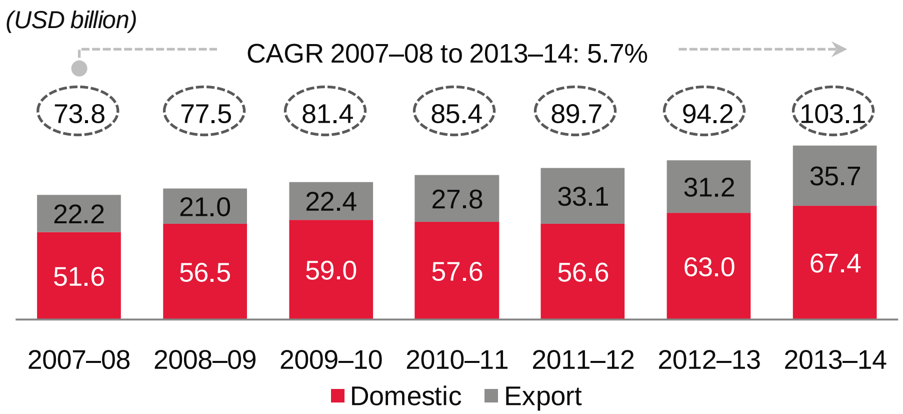
FUTURE TRENDS AND DRIVERS

- The Indian paper industry accounts for about 1.8% of the world's paper and paperboard production.
- India’s demand for paper is expected to rise, primarily due to a sustained increase in the number of school-going children in rural areas.
- The sector, which faced challenges from rising input (wood) costs, is now better placed due to a renewed push for agro-forestry and softening of pulp costs.

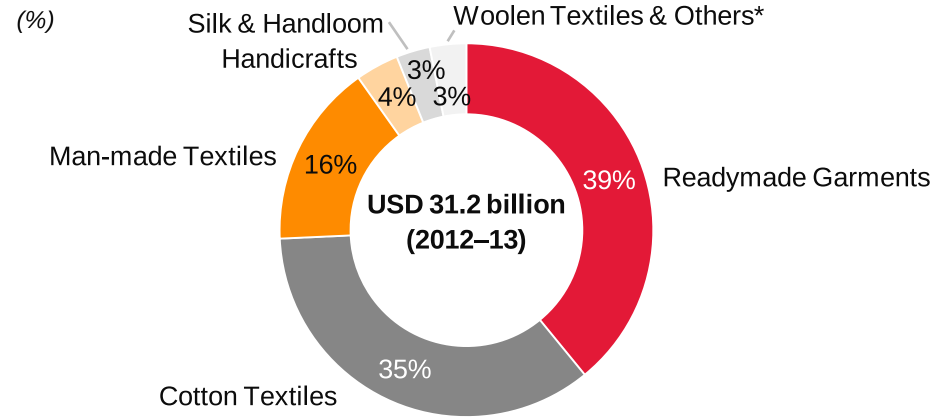
Source: *Crisil Research September- 2013, Indian Paper Manufacturers Association*

Low-cost labor makes India a preferred textile market

DOMESTIC AND EXPORT TEXTILES & APPARELS MARKET



EXPORT TEXTILE AND APPAREL SALES BY PRODUCTS



KEY INDUSTRY PLAYERS

Company Name	Business Areas
Welspun Group	Home textiles, bathrobes, terry towels
Vardhman Group	Yarn, fabric, sewing threads, acrylic fiber
Arvind Mills	Spinning, weaving, processing, and garment production
Bombay Dyeing	Bed linen, towels, furnishings, fabric
Alok Industries Ltd	Home textiles, woven and knitted apparel fabric, garments, and polyester yarn
Grasim Industries	Textile, cement, and manufacturing

FUTURE TRENDS AND DRIVERS

- As per the Ministry of Textile, the textile and apparel market is expected to grow to USD 223 billion by 2021, of which domestic market and exports would account for USD 141 billion (63%) and USD 82 billion (37%), respectively.
- India is one of the most preferred textile markets due to factors, such as low labor cost per hour, large pool of skilled workers, which offer significant margins to textile companies.

Source: *FICCI, Ministry of Textile, Technopak report on Global & Indian T&A sector, July 2012, Equitymaster*

**Others include coir & coir manufacturers and jute*

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National Manufacturing Policy (NMP) aims to push manufacturing's contribution to GDP to 25% by 2022 from 15% currently

Particulars	Description	Implications

National Manufacturing Policy (NMP)	▪ The policy is based on a principle of industrial growth in partnership with the Indian states.
	  ▪ Central Government would create the enabling policy framework, provide incentives for infrastructure development on a PPP basis through appropriate financing instruments, while State Governments would identify suitable land and be equity holders in the NIMZs.
	  ▪ Eight NIMZs along DMIC have been announced.
	▪ The policy has also come up with proposals to improve access to finance for SMEs in the manufacturing sector.
		▪ As targeted by the National Manufacturing Competitiveness Council (NMCC), the policy aims to push manufacturing's contribution to GDP from the present 15% to 25% by 2022. In doing so, the policy intends to create an additional 100 million jobs and support required skill development programs.
		▪ The manufacturing policy addresses the issues prevailing in the manufacturing sector such as labor laws, reducing bureaucratic delays through single window clearances, SME incentives, technology development, exit mechanism for unit closures.

Source: *Ministry of Commerce & Industry, PwC, Aranca Research*

iimjobs.com

Tax incentives and government initiatives are expected to help the manufacturing industry

Particulars	Description	Implications
Tax incentives/concession to SEZ	▪ The Indian government has granted several incentives, such as tax incentives and physical infrastructure, to SEZ units to bolster the production of manufactured goods. ▪ SEZ would attract substantial foreign investment as it allows 100% foreign direct investment (FDI) in the manufacturing sector.	▪ SEZ success is expected to translate into exponential growth in the manufacturing sector.
Mandatory Procurement from Micro & Small Enterprises (MSEs)	▪ Every Central Ministry or Department or Public Sector undertaking shall set an annual goal of procurement from MSEs with the objective of achieving an overall procurement of minimum 20% of total annual purchases of products produced and services rendered by MSEs in three years.	▪ The policy would help to promote MSEs by improving their market access and competitiveness through increased participation in government purchases and encouraging linkages between MSEs and large enterprises.

Source: *Ministry of Commerce & Industry, PwC, Aranca Research*

Latest key deals and moves in the manufacturing sector

2014

SUN PHARMA

Acquires

RANBAXY LABORATORIES LIMITED

- Sun Pharma fully acquired Ranbaxy, which would help the company to create a large specialty pharmaceutical company with strong capabilities in developing complex products.
- The acquisition creates the fifth-largest generic company in the world and the largest pharmaceutical entity in India.

USD 3.2 billion

2014

CLAY CRAFT FINE BONE CHINA

Acquires

JCPL

- Clay Craft India would undergo a transformation by undertaking the branding rights that would allow the firm to increase distributor and retailer network and subsequently the market share.

NA

2012

Gulf

Merger with

HOUGHTON

- Gulf Oil Corporation Limited (GOCL), through a step-down subsidiary structure in the UK and the US, fully acquired Houghton International Inc.
- The acquisition adds to GOCL's product portfolio of mainstream lubricants and strengthens its presence in the automotive sector.

USD 1 billion

Source: *Business Standard, Economic Times*

Sharp rise in manufacturing costs in China due to decline in labor supply would benefit India's manufacturing industry

INDIAN MANUFACTURING SECTOR VS. PEER COUNTRIES

Countries	Country Manufacturing Competitiveness Index Score - 2013 (10=High, 1=Low)	Labor Costs (USD/hour) – 2011	High-Technology Exports* – 2011 (% of Manufactured Exports)
China	10.00	2.8	25.8
Germany	7.98	46.4	15.0
US	7.84	35.4	18.1
India	7.65	0.9	6.9
South Korea	7.59	17.7	25.7
Taiwan	7.57	9.2	NA
Canada	7.24	38.3	13.4
Brazil	7.13	12	9.7
Singapore	6.64	21.9	45.2
Japan	6.60	35.4	17.5
Thailand	6.21	NA	20.7

Note*: High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

Source: *Deloitte, World Bank, CII*

ATTRACTIVE OPPORTUNITIES

- **Domestic Demand:** Rising demand, together with the multinationals' desire to diversify their production to include low-cost plants, could help India's manufacturing sector to grow six fold by 2025, to USD 1 trillion, while creating more than 100 million jobs.
- **China's Competitiveness Declines:** As China's competitiveness declines, due to Yuan appreciation and wage inflation, and a drop in investment as a percentage of GDP is observed, it is expected that growth in China's manufacturing sector is unlikely to continue. There seems to be a clear opportunity for developing countries like India to fill this gap and become a global manufacturing hub.
- **Hi-tech Exports:** Hi-tech exports from India have been witnessing a CAGR of 26% during 2007–11, with exports touching USD 20.9 billion, a significant increase from USD 8.1 billion in 2007. Hi-tech exports are expected to boost the country's manufacturing sector.

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Case Study 1: Tanishq – Titan's brand

TANISHQ'S LAUNCH

- Entering the largely fragmented Indian jewelry market with no known brands in 1995, Titan Company launched Tanishq.
- Tanishq began by offering jewelry in the 18-carat gold range, with designs borrowed heavily from contemporary European brands.
- The company's performance was extremely poor in the next three years, posting a huge loss in 1997–98, because Tanishq, as a concept, was far too ahead of its times.

STEPS TAKEN TO ENHANCE ITS IMAGE

- Tanishq realized that it had gone wrong mainly in two areas: product proposition and retailing.
    - The first step it undertook was to change the brand positioning from that of an elitist and westernized offering to a more mainstream, Indian one.
    - The 18-carat jewelry range was expanded to include 22- and 24-carat ornaments as well.
    - Tanishq made attempts to redefine traditional Indian styles in its designs.

RESULTS

- After undertaking all the necessary steps to enhance its image, Tanishq recorded its first ever operating profit in 1999.
- The company fared equally well on the export front as well, with heavy exports to the UK, the US, Australia, and West Asia. Tanishq was the largest overseas chain in the US with 1,200 outlets. In 2000, exports contributed 10% to the company's turnover.
- The story of Tanishq, once written off as a losing proposition, making a turnaround is an example of how a company with proper strategy made its mark in the tradition-bound Indian jewelry market.
- Today, Tanishq is one of the trusted and fastest growing jewelry brands in India.

Source: *Company Website, Business Today*

Case Study 2: Gillette – Procter & Gamble's brand

GILLETTE'S ENTRY IN INDIA

- In 1984, Gillette entered the Indian shaving razor market. In 2004, the brand launched Mach3, triple-blade system. However, the brand witnessed flat sales for a long period of time.
- Gillette was unable to withstand competition from competitors providing two-blade razor systems. The main reason was the men's mindset to not spend a premium price on razors.

STEPS TAKEN TO ENHANCE ITS IMAGE

- In order to reposition itself, Gillette reformed manufacturing, distribution, marketing, and advertising strategies.
- The company undertook initiatives to change consumers' attitude toward shaving in the form of marketing campaigns such as the Shave India Movement 2009 campaign.
- In 2010, Gillette launched Gillette Guard, specifically designed for the Indian market. The product was targeted toward the low-income Indian men.
- Traditional marketing campaigns were used to promote sales of Gillette Guard.

OPPORTUNITY IDENTIFICATION

- Gillette identified key concerns that Indian men faced while shaving: it was time-consuming, caused skin irritation, and was unpleasant.
  - Mach3 was positioned as a solution to the concerns of Indian men. However, considering lack of awareness, the company launched campaigns to boost sales.
- Gillette estimated demand from 400 million customers who were not happy with traditional, double-edged razor shaving systems as well as with Mach3.
  - After a thorough study, the company launched Gillette Guard, which was affordable, safe, and easy to use.

RESULTS

- Gillette's success in the Indian market is attributed to innovative marketing and reverse innovation product development.
- The company successfully changed Indian consumers' perception and attitude toward shaving.
- Gillette was able to identify Indian consumers' needs and develop low-priced, convenient product.
- Gillette's investment into research and development to understand the Indian consumer behavior garnered success.

Source: *Company Website, Business Today*

Notes & Exchange Rates

IMPORTANT NOTES

- Figures may not sum up to the total in view of rounding-off to the nearest whole number.
- FY refers to Indian financial year from April to March.
- CAGR stands for compounded annual growth rate.
- OEM stands for original equipment manufacturers.
- E stands for estimated, and F for forecasted figures.

EXCHANGE RATES

Fiscal Year	INR equivalent of one USD
2008–09	46.08
2009–10	47.62
2010–11	45.87
2011–12	48.31
2012–13	54.64
2013–14	59.76

Source: *OANDA*