

# MAKE IN INDIA – IS IT HAPPENING ?

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“Make in India” has been a major program of our Honourable Prime Minister and rightfully so as we have truly lagged behind in the manufacturing sector. There have been many conferences, program and discussions on the same – the press is always full of mention of Make in India. We ourselves are a manufacturer who sells domestically and also exports across the globe. The Make in India program had excited me also personally and had hoped for a lot to happen.

India has ample labour at reasonable cost, a huge domestic market, ample opportunity for import substitution, rich reserves of raw materials, a proactive Government – **all the ingredients are there but still the dish is far from complete** as the recipe is yet to be figured out.

The **negative to flat industrial growth rates** in the recent past when the **economy is said to be growing at 7% plus** is another disturbing and eye brow rising piece of data.

As I sit down and ponder objectively, prompted by the growing influence of Chinese products in our country – it makes me **wonder how Make In India dream will be fulfilled**. I am asked by many youngsters as to what sectors and segments hold great potential. My instant reaction is that avoid the manufacturing sector – it makes me guilty of not being in sync with our PM who I admire a lot. I looked around to see whether my advise is wrong, however sadly the more I analyse and look around, the more convinced I am that my advise is correct.

Many have countered me and said that as a business person I should be promoting Make in India strongly. I fully agree and would want to, but am not able to convince myself and find sufficient logic/reason to share the excitement of many around me. It is pertinent to understand as to why have the educated class of the country, mostly shunned entrepreneurship and more so the manufacturing sector.

Being an MBA we tend to lean more towards logic and analysis, however over the years have learnt that “too much of analysis leads to paralysis” and management is both art and science.

I would like to open up my heart and share my feelings/thoughts which have developed with my experience, observations, information and knowledge over the years. I hope this would reach the people who matter and it would provoke some thoughts and actions which would lead to a better business environment.

Some reasons **why manufacturing is a shunned industry** are:

- Everyone feels owning a factory means your rich and wealthy and its everyone's birth right to extract its pound of flesh. This leads to a factory being harrassed by:
  - Local people on various counts – small & big

- Inspectors appointed to comply with various laws, most of which are archaic and irrelevant today. Inspector raj has to be managed as they have omni powers to penalise you
- Multiple laws regulate factories
- Labour and trade unions have to be managed
- Your presumed wrong and considered guilty unless proven innocent
- Land even after purchased or received as per law, has no guarantee. Firstly to get consolidated land for a factory is a night mare, and thereafter no insurance that its going to stay with you.
- 24 x 7 a manufacturer is open to risk of fire, calamities, accidents and so on.
- Despite being one of the fastest growing economies, we are far behind even smaller nations when it comes to Ease of doing business. World Bank recently confirmed India's ranking at 130 out of 190 nations (means no progress made by us despite intentions).
- Power costs are extremely high in most parts of the country. The Electricity Act was passed in 2003, however still many States don't allow purchase of power and many make it inviable by imposing cross subsidies, taxes, charges etc. Power on IEX is available as low as Rs 2/unit, however its landed cost to industry multiplies 2 to 3 times, where allowed to be purchased. The moot point is that why should State Electricity Boards be allowed to act as monopolies ??
- Interest rates are extremely high. Despite RBI having decreased their rates by 175 basis points over last 18 months, the banks have not even decreased by 100 basis points !!! Why should compliant customers pay for NPAs and inefficiencies of banks ??
- Instability of policies. The Government can retrospectively change anything they want leading to law abiding companies become violators, incentives due to companies being refused and so on. The only resort is going legal which we all know is prohibitively expensive and time consuming. Even after judgements in favour, its not easy to get justice from the Government.
- Labour attrition, absentism, education levels makes manufacturing consistently a challenge. Some reasons for the same are:
  - Number of religious festivals we have across the country
  - MNRGEA which makes labour take long leaves for their home town
  - Culturally not a disciplined country
  - Education levels in rural still very low – makes skilling difficult
  - Propensity to migrate has reduced
  - Married women working is still very low
- Economies of scale are difficult to develop due to:
  - Poor availability of consolidated land
  - Issues of employing large number of labour in one location – one stray incident or displeasure of local leaders can ruin a company
  - Hardly any favourable FTAs which could provide a big market to Indian companies to dare to set up large capacities
- Manufacturing is taxed and taxed, ensuring they never can generate sufficient return on capital employed unless they are in some industry where they enjoy monopoly or subsidies. If we analyse the ROCE of manufacturing companies it would shock us all. Interesting to note the following:

- A promoter of a dividend paying company pays almost 60% tax on profits – corporate tax, dividend distribution tax and then dividend tax. Is this equitable ??
- Apart from direct taxes, companies pay a host of indirect taxes.
- Cross subsidies are the order of the day. Even after paying taxes and taxes for meeting Government expenditure, they have to pay cross subsidies on a host of expenses to subsidise other sectors like power, interest, freight etc.
- It's the duty and work of Government to collect taxes – however the tax abiding companies are forced to do this by way of TDS, TCS, Reverse charges etc. They are also heavily penalised for even a day's default. Even indirect tax collection like VAT is the duty of the purchaser – its duty of company to ensure his supplier pays taxes instead of VAT department who has registered them.

There is always a risk reward concept in business. However **in India the manufacturing sector has a imbalanced risk reward relation**. Manufacturing isn't everyone's cup of tea – those choosing have to bear many of the above mentioned risks in any part of the world, but the fact is that the rewards for the risk are also there. In India the sector is considered a cash cow to be milked and milked – when it can't be milked anymore its simply butchered to withdraw every ounce and drop of blood.

Unless we in spirit don't understand the importance of manufacturing sector and its role in development of the country by generating employment, revenue, self reliance, earning foreign exchange by exports & import substitution, reducing cost of products for the common man – we shall never ever see the dream of India becoming a manufacturing hub and factory of the world like other nations (China, Korea, Japan, Taiwan, Thailand etc) have become over the last few decades.

Today the service sector looks attractive and all are zeroing for the same – India was a under serviced nation and hence we have seen high rates of growth. However going forward without a vibrant primary economy how can the supporting segments thrive and grow. The Government has no doubt understood all this and hence "Make in India" came up, however to realise the dreams on ground, we have miles to go. We also recognise that it needs the combined efforts of both Centre and State to make things work, hence important to build a Federal consensus like being done for GST. Federal competitiveness is already visible and the Statewise ranking on Ease of Doing Business is also a welcome step.

We hope the ground level problems are understood and appreciated before its too late. The world is round and with advent of robots and automation – **manufacturing may very well go back to the developed world** where most of the above mentioned irritants/obstacles are not there.

Would like to conclude with a disclaimer, that I am not a pessimist and very well know that we are improving on various fronts. Every day new postives are happening especially on the infrastructure and technology front – however am **worried by the pace of activities and our relative position to competing nations** (the recent World Bank Report and industrial growth rates which don't show any relative improvement validates my feeling as a businessman).