

The foundry sector in India is struggling for survival on low demand from domestic manufacturing sector and import duty levied on primary raw materials including metallic scrap.

While India's auto sector has indicated a revival in demand of castings but, that's insufficient to compensate the decline in consumption from other sectors including heavy engineering, road and construction sectors.

The Industry

India has emerged as the third largest castings manufacturer in the world only after China and United States of America. With its installed capacity of 15 million tonnes, actual annual production works out to between 6-9.5 million tonnes. This indicates the capacity utilization of upto 40-60 per cent. Of the total output, however, 4-6.5 million tonnes of output comes from grey cast iron. The remaining 2-3 million tonnes is almost evenly distributed among ductile iron (~1 million tonne), steel (~1 million tonne) and non ferrous metal (~1 million tonne). In fact, the annual capacity and actual output of metal castings could be much higher than the estimate above due to involvement of around 85 per cent of castings from unorganized sector that does not report production in public. The industry estimates around 85 per cent of metal castings units produce around 15 per cent of output and vice-a-versa.

The capacity utilization of Indian foundry units, however, has seen a gradual decline over the last few years due to weak demand from consumer industries. From the level of over 70 per cent in early this decade, the capacity utilization has declined to 60 per cent in 2012-13 and 40-45 per cent in 2013-14. The foundry sector is understood as the barometer of the real growth in India's economy as it includes consumption from the sectors that really indicate the economic growth of the country. With the growth in India's economy slows down gradually, foundry sector in the country has also seen similar downward growth.

Lack of investment in infrastructure has hampered demand of metallic castings over the last few years. With the government now has started focusing on the infrastructure development with over Rs 100,000 crore of proposed investment over the next few years, the demand of metal castings is expected to resurgent in the years to come. Apart from that the government has also

Indian Foundry Sector Struggling for Survival

- Metalworld Research Team

intensified focus on public private partnership to attract private investment in public infrastructure.

Competition within the Sector

India is not immune to the global economic slowdown which has so far engulfed all countries including developed and developing ones. Although, the Indian economy has shown growth yet the pace of growth declined. Therefore, the slowdown in global economy has a negative repercussion in the overall industrial growth in India and the foundry sector is no exception. Owing to under utilization of capacities on account of economic recession, there is a keen competition amongst foundry units within the country. The large ones are eating pie of the smaller ones and vice-a-versa. All these practices have kept realization lower resulting into many small units closed down. The large ones have also shown negative growth in cash flows. But, those with deep pockets have survived so far albeit with the level of breakeven. This situation, however, has been exploited by buyers. Survival and sustenance of foundries have become tough and challenging. Those units still continuing operations, buyers are defaulting with sellers resulting into huge payout problems in the industry. Thus, foundries have started raising

working capital from banks at an interest rate higher than the prevailing in the markets. In order to service these debts, therefore, foundries sell castings at dirt cheap price. Consequently, foundries are servicing banks rather than industry.

Another problem Indian foundries are facing is lower demand of castings from farm equipment sector. The latest data compiled by the government of India showed India's agriculture sector growth has witnessed 1 per cent negative growth (-1%) in the December quarter of 2015 as compared to 2 per cent positive growth in the corresponding quarter last year. Steep decline in castings demand due to a slowdown in farm equipment sector, a sharp increase in the cost of energy and other inputs have worsened foundry sector's financial performance steadily. Thus, the life of Indian foundry sector has become miserable making therefore survival difficult. Over and above, banks and financial institutions have denied any relaxations in interest rates for working capital. Thus, the situation for Indian foundry sector has become grim which calls for urgent action with evolution of workable solution to bring the entire sector back on track.

Allied MSME Sector in Deep Trouble

Thousands of units under micro, small and medium enterprises (MSME) have faced threat

of closure. When the government of India is focusing on employment generation with sharp focus on skill development, foundry is a sector which faces thousands of skilled workers leaving this industry to opt for alternative means of survival. Also, owing to uncertain government policy, the next generation of existing foundry unit holders has started migrating into high yielding sectors including information technology and others. Thus, a uniform approach is required to long term development of this foundry sector, said S P Oudhia, an industry veteran, in his recent paper.

Shortage of Skilled Manpower

Facing skilled manpower shortage and lack of technology up-gradation to compete with China, the foundry industry in India has sought Centre's support to contribute to Prime Minister Narendra Modi's 'Make in India' campaign. Foundry industry is the mother of all industries. Growth in foundry sector over the last five years has remained stagnant because of the various problems faced by the industry. We can play an important role in achieving 'Make in India' campaign. But, for that we need to address some issues, which is not possible without government intervention. To address the challenges of the foundry industry, Centre has notified formation of Foundry Development Council, chaired by the Department of Industrial Policy and Promotion (DIPP) secretary and other stakeholders. Scarcity of skilled manpower is among the current major challenges faced by the industry. Gap between actual requirement and availability is about 15 per cent. To meet these requirements, IIF has proposed setting up of training institutes near foundry clusters across the country. There is only one training institute at present - National Institute of Foundry and Forge Technology (NIFFT) - in Ranchi, which trains people for foundry industry. Indian Institute of Foundrymen (IIF) and council has sought about Rs 300 crore to set up two such modern training centres in west and south India. Many foundry players want to upgrade their units but as it is expensive, small units cannot afford it and so we have requested the government to provide fund for the same.

"The new direction from government is on manufacturing. The real growth of India is not possible without manufacturing & exports and the foundry is backbone of engineering. Although Indian foundry industry is reasonably strong, there lies a huge potential for global market share. The target should be five-fold growth in next 10 years by improving utilization of installed capacity and collaborating and synergizing among cluster members. The New Manufacturing Policy envisages GDP growth from 15 per cent to 25 per cent by the year 2022 and 100 million more jobs to be created in next ten years through

manufacturing sector," an industry veteran said.

The council also discussed this in its first meeting held on June 2, 2015 and urged the government to introduce a scheme on the lines of Technology Up-gradation Fund (TUF) to promote technology up-gradation in foundry sector. The industry requires support to the tune of Rs. 500 crore from the government for technology up-gradation. There are nearly 5,000 foundries across the country largely in MSME sector in 17 foundry clusters employing over 2 million people. The foundry industry currently produces about 10 million tonnes of cast components in ferrous and non-ferrous category as per various international standards. The sector's annual turnover is nearly \$18 billion at current production rates. It is estimated that the demand will grow threefold in the next 10 years, which will throw open new opportunities and challenges too. The Indian foundry industry generates revenue of \$16 billion; exports over \$2 billion of castings annually.



Growing Business Confidence

Business confidence in last few months has started to look upbeat after several years of economic slowdown. There are clear indications in the policies of government focusing on increasing GDP, which will require scaling up of manufacturing and skill development -- the backbone of economic activity. The slogan 'Make in India' is true reflection of government policy to promote manufacturing in India.

There is need to promote investments in productive & environment-friendly technologies and equipment. Duty-free imports of equipment not manufactured in India should be considered and accelerated depreciation could be allowed in such sector specific machinery selectively, which is not available in India, he urged.

Further the metal scrap is a key raw material which is recycled to make finished cast components. The domestic availability of scrap is insufficient to meet the needs of

manufacturing and the gap is likely to grow as the manufacturing sector picks up momentum through continuous support from DIPP, Ministry of Commerce & Industry and also office of DC MSME. The import duty on metal scrap was nil later 2.5% import duty was imposed in May 2013. Also other challenges like quantity of domestic scrap that is insufficient to meet the requirements of manufacturing and needs to be imported and due to expected growth in manufacturing, gap in availability and demand of scrap likely to increase.

The time is now for foundry sector to take advantage of the new business environment which will not only enable to tap its full potential but foundry sector will also contribute significantly to the manufacturing sector for overall economic development of our country. IIF will increasingly endeavour to play a key enabling role for sustainable growth of the sector.

Government regulations on the import of metal scrap—including a 2.5 percent import duty on scrap metal—have seriously affected metal casting manufacturers in recent years. The imposition of the import duty could cause a potential revenue loss of approximately US\$1.82 billion (US\$1= INR60.24) to metal casting manufacturers in India. Since the Foundry market in India mainly relies on imported raw materials to reduce costs and increase the quality of castings, regulations put forth by the government will be a challenge for metal casting manufacturers as they will ultimately lead to increased cost of operations and reduce the quality of castings during the forecast period.

Conclusion

The foundry sector in India is set to experience some major growth over the next four years, posting a CAGR of 19.67 percent in terms of revenue from 2013-2018. Increased demand from the automotive, electrical and construction industries will propel a lot of this growth, as the world starts to recover from the economic crisis, and companies renew their interest in India as a source of metal castings. But the industry is still volatile, with some big challenges expected to mediate more aggressive growth. The manufacturing sector in India is showing signs of revival, with strong demand from domestic and global markets. After holding back investment in the aftermath of the global economic slowdown in 2008-2009, companies have again started to invest in capacity expansion and asset creation. For example, Ford is planning to invest US\$2 billion in India over the coming years and Renault-Nissan is planning a US\$2.5 billion investment. As major manufacturers renew their interest in India, the demand for castings will bolster growth of the foundry market in India.