

Indian Foundry Sector Likely to See Weak Sales

- Metalworld Research Team

The Indian foundry sector is likely to see weak sales in 2017 following a severe impact of demonetization and slow demand of its products on transition from the normal or no tax to the Goods and Services Tax (GST) which would take months for companies to adjust with the new tax regime. The demonetization of high value currency notes of Rs 500 and Rs 1000 in November 2016 has brought business of small and medium enterprises (SMEs) to standstill due to their dealings largely in cash.

Despite the availability of cash at many spots eased, many SMEs have yet to switch to the electronic mode of transactions. While a large number of medium and big size foundries have shifted to the electronic transactions, many of them have gradually shifted back to the old system of cash transactions.

Meanwhile, demonetisation had its impact on the industry particularly in sourcing of metal scrap and there has been a 20-30 percent drop in production. Demand of foundry products has slipped resulting into a cascading affect on end users. Alongside the impact of demonetization, the finance minister has announced implementation of the GST which would be another blow for foundry industry in tax compliance. Experts, therefore, believe that foundry business in India would continue to remain dull for over six – eight months this year. Hence, the year 2017 may not be a good year for foundry business in India. But, a revival is in sight in 2018.

THE INDUSTRY

The foundry industry in India has attained the size of the third biggest in terms of production capacity with 10 million tonnes only after China of 40 million tonnes and the United States (11 million tonnes). India has a total installed foundry production capacity of 15 million tonnes per year. India's foundry sector has a total turnover of \$ 19 billion with exports value of approx. \$ 2.5 billion. The industry employs around 2 million skilled and semi-skilled workers directly and indirectly.

Over the last few years, the industry has growth rapidly. However, grey iron castings have the major share of approx 68% of total castings produced. The foundry industry in India manufactures metal cast components for applications in auto, tractor, railways, machine tools, sanitary, pipe fittings, defence, aerospace, earth moving, textile, cement, electrical, power machinery, pumps / valves, wind turbine generators etc.

Experts estimate India foundry market to grow by more than 10% in 2017 - 2021 with Electrosteel Castings, Hinduja Foundries, Nelcast & Rail Wheel Factory dominating. While around 20 percent large foundry companies contribute nearly 80 percent of the industry output, the remaining 80 percent unit largely of small and cottage size contribute nearly 20 percent of overall annual output.

Industry players believe new opportunities from the governmental boost to infrastructure projects such as metro rail will ensure utilization of the idle capacity and the addition of another 15 million tonnes capacity in the next five to 10 years.

There are about 4,600 units engaged in forging, these units are located in 19 major foundry clusters across the country and collectively exported to the tune of \$2.7 billion, besides producing finished components worth \$2.5 billion in 2015 - 16. The industry has a turnover of \$18 billion.

INDIAN FOUNDRY INDUSTRY TO SEE WEAK SALES

Slow sentiment to weaken competitiveness

PRODUCTION OF CASTINGS (MILLION TONNES)						
Financial year	Grey cast iron	SG iron	Malleable	Steel	Non ferrous	Total
2006-07	4.87	0.762	0.0623	0.914	0.571	7.1793
2007-08	5.332	0.802	0.0651	0.964	0.608	7.7711
2008-09	4.532	0.785	0.0605	0.916	0.547	6.8405
2009-10	5.05	0.8	0.0602	0.88	0.653	7.4432
2010-11	6.18	0.984	0.0692	1.07	0.75	9.0532
2011-12	6.798	1.09	0.066	1.14	0.9	9.994
2012-13	6.254	0.981	0.0604	1.158	0.891	9.3444
2013-14	6.7	1.000	0.060	1.100	0.95	9.810
2014-15	6.83	1.07	0.06	0.968	1.093	10.021
2015-16	7.41	1.18	0.05	0.88	1.25	10.77

Around 25-30 percent of foundries located in Southern region contribute "significantly" to the overall growth of the industry, the domestic foundry sector which

manufactures nearly 35 million tonnes of casting per year as compared to Indian foundries which produce only around 10 million per annum. Chinese government has

supports sectors like auto, auto components, railways, electric, cement etc which are the major contributors to India's GDP. The Govt of India is taking several steps to promote Make in India, Skill development and Ease of Doing Business and to support Make in India.



The Foundry sector will need to grow at least 3 folds in next 10 years. Although, the Auto and Capital Goods sectors have already drawn very ambitious mission plans but that cannot be realized in full measure without corresponding growth of foundry sector. Auto sector has envisaged to grow to approx \$ 300 bn industry by 2026 under the New Automotive Mission plan and Capital Goods Sector has also come out with Capital Goods Policy which envisages the Capital Goods Sector to grow from \$35 bn to \$ 115 bn industry by 2025 providing new job opportunities to approx 22 millions.

was growing at 15 percent till 2008 declined by five percent due to poor demand.

CHEAP IMPORTS

The business was affected in the last few years due to China aggravating power components exports and lowering prices below that of the domestic market. China

provided exemptions to cover nearly 40 percent of export duties. Importing casting from China is cheaper than purchasing them from Indian foundries.

OPPORTUNITIES

Indian Foundry Sector is the feeder industry to the manufacturing sector as it

Even if these goals are achieved partly, it will augur well for the foundry sector and will drive demand for castings.

CHALLENGES

The Indian foundry industry faces the



shortage of good training facilities as there is only one national level institute i.e. NIFFT Ranchi. During last five decades, the industry has seen a revolutionary changes in technologies therefore there is need to upgrade NIFFT. The government also needs to consider this requirements of the industry and should establish at least two modern institutes.

Similarly polytechnics and ITI near major foundry clusters need modernization to meet future skilling needs. Apart from that environment costs are increasing day by day. IIF is promoting recycling and efficient use of resources and energy for climate change mitigation.

However, the Government needs to augment and support the industry willing to invest in more environment friendly technology and equipment, energy efficient equipment and recycling. Similarly, lack of new technology is another major challenge faced by the industry. While some units are world class, many need to invest in new technology to become globally competitive. New technologies such as 3D printing, robotics, automation, increased use of IT in design and manufacturing needs to be acknowledged and for the same IIF has proposed to Government for establishing technology up gradation fund for foundry sector to promote investments in new technologies.

Also, the quality power at competitive price is a big challenge. The industry is being made to pay for inefficient distribution system and for cross subsidies. As such the cost competitiveness of the foundries is eroded substantially this makes the operation of foundries running at low

margins unviable and makes it impossible to invest in new technologies.

Currently, TDS (withholding tax) on Nonresident under section 195 is the unique section to identify the tax rates and deductions on our business transaction with nonresident day to day basis. The tax is deducted on interest (not being interest referred to in section 194LB or section 194LC or section 194LD) or any other sum chargeable to tax under provisions of Income Tax Act 1961, (not being income chargeable under the head "Salaries") shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rates in force.

But, with the GST on rollout, all taxations issues would be shorted out. This section put an obligation on payee to obtain PAN in India and in case Double taxation agreement benefit is sought TRC is to be submitted which is an onerous responsibility on nonresident person. So normally majority non residents have started quoting charges for services net of taxes that means taxes to be deducted are added on cost. This has resulted in to increase in imported services cost to that extent.

Apart from that, the import of key raw materials should be made duty free so that the impact of devaluation of INR is offset to some extent. In fact some of the raw materials such as metal scrap were allowed to be imported duty free. However, subsequently import duties were imposed on these and the falling Indian rupee resulted in further impact on cost of imports of these raw materials.

The average duties on raw materials for foundries in India are higher than those in competing countries which results in cost disadvantage to Indian Foundries as compared to foundries in the competing countries affecting the global cost competitiveness of Indian Foundries.

The industry has urged the government to re-define MSME. The definition of MSME was amended 9 years back regarding the cap in investments in plant and

machinery .The cost of equipment has gone up steeply over these seven years and as such the limits in investment in plant and machinery for classification of units in Micro, Small and Medium category has become obsolete and therefore need to be relooked.

Under the re-definition, the micro should be categorized as Rs 25 lakh to 50 lakh of annual turnover, small with Rs 5 – 10 crore and medium with Rs 10 – 30 crore.

Apart from that, the technology and processes in foundry sector over the last few decades have changed radically and the technologies adopted today will become outdated in next 5-7 years. Moreover, the average production in Indian foundry is very less as compared to foundries in other countries (almost 1/7th of average of German foundries). Therefore the foundries will have to not only upgrade periodically in various areas such as mentioned below but also have to scale up production to achieve global competitiveness.

IIF INITIATIVES

Meanwhile, the industry body IIF has planned a Centre of Excellence for casting technology and skill development had been planned in Coimbatore at an investment of Rs40 crore. The proposal, awaiting the Centre's approval, is in the interest of small and medium enterprises and would be set up with the support of MSME Ministry.

The project would be a boon to help small units on the technological and labour fronts to tide over any crisis. The Institute of Indian Foundrymen (IIF) is the apex industry body promoting the competitiveness of India's foundry industry. There are about 5,000 foundries in India largely in the MSME category. The foundry or metal casting industry is a key component feeder for the various sectors such as auto, auto components, railways, agro, tractors, textile, cement making, electrical machinery, earthmoving machinery, power equipment, defence equipment, and aero and space industry its sustainable growth has become more important today than ever before given the emphasis of the government on "Make in India".