

The slowdown in industrial growth in India has affected India's \$15 billion foundry industry harder than any other sectors. Demand from consumer industries including auto and ancillary, has slowed down resulting into steep reduction in operational capacities of large foundry houses and closure of smaller ones.

Indian Foundry Sector

- Metalworld Research Team

Struggling to Get Orders on Economic Slowdown

Introduction

Used broadly as metal cast components for applications in auto, tractor, railways, machine tools, defence, earth moving, textile, cement and a host of other industrial sectors, Indian foundry industry moves in tandem with industrial growth. The industry also exports castings worth \$2 billion annually. India produces around 9.5 million tonnes of metal cast for both domestic consumption and exports. But, due to falling economic sentiment resulting into a steep decline in consumption from downstream industries has affected Indian foundry industry hard. Consequently, total cast metal output is estimated to decline at least by 10 per cent this year. The worst affected of them are non-ferrous metals casting sector. While prices of base metals like aluminium, copper and zinc have fallen significantly in the last one year due to oversupply, scrap price remained elevated due to shortage of supply. Also, the government's policy to keep import duty on both raw material (scrap) and finished products

(virgin metal) same at 5 per cent, reduced reliance on scrap imports. Consequently, users have not only started opting to import finished products directly in order to reduce delivery hassles, scrap dealers have also gone for limited import business. They book quantity from domestic buyers and accumulate orders for bulk quantity imports.

In India, grey iron castings have the major share i.e. approx 68 per cent of total castings produced. There are approx 4500 units out of which 85 per cent can be classified as small scale units and 10% as medium and 5 per cent as large scale units. In India, 85 per cent units share 15 per cent of output with low capacity while the remaining 15 per cent of large cast houses, share 85 per cent of total annual output. According to Institute of Indian Foundrymen, approx 800 units are having international quality accreditation. Several large foundries are modern and globally competitive. Therefore, they are working at nearly full capacity. Most foundries use cupolas using LAM Coke. There is growing awareness about environment and many foundries are switching over to induction furnaces and some units in Agra are changing over to cokeless cupolas.

PRODUCTION OF CASTINGS (MILLION TONNES)

Financial Year	Grey Cast Iron	SG Iron	Malleable	Steel	Non-ferrous	Total
2002-03	2.47	0.316	0.039	0.338	0.296	3.509
2003-04	2.84	0.363	0.039	0.465	0.331	4.038
2004-05	3.18	0.442	0.04	0.581	0.38	4.623
2005-06	4.116	0.618	0	0.805	0.516	6.055

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Shops Shutting Down

Faced with falling demand of downstream products from auto and ancillary sectors, several small and medium-sized foundries across the country have been forced to stop production, owing to a demand slump. Industry insiders say that most of these units cater to automotive manufacturers and ancillaries, and that 10-15 per cent of them have either closed down or stopped production temporarily. The automotive segment consumes 32 per cent of the foundry industry's output - much higher than power (five per cent), railways (six per cent), industrial machinery (seven per cent), and sanitary ware (nine per cent). Average capacity utilization of foundry sector in India currently stands at around 45 per cent. "Our factory is running at less than 50 per cent capacity. We supply to passenger car makers like Tata Motors and Maruti Suzuki, and commercial vehicle players like Eicher. With lower capacity utilisation the overall cost of production increases and profitability shrinks substantially, said Pawan Mishra, proprietor of Shree Ganpati Castings, a 300 tonne-per-month unit at Jaipur

Lack of trained manpower has worsened the industry's future potential. While new generation entrepreneurs have opted out of the perennial foundry sector due to hectic business model and age-old moulding techniques, a number of existing business class have started shifting to other business opportunities. Finding skilled manpower is an issue, as there is no sustained demand and people tend to drift off. The foundry industry needs mechanisation and automation of processes, in order to improve quality standards and reduce human error. However, with inadequate capital inflow, units are not in a position to invest in plant and machinery.

Costly Scrap Imports

Indian foundry units are facing a severe threat of losing Rs 11,000 crore of exports business to competing countries like China and Taiwan due to the recent levy of import duty on metal scrap - the only raw material for producing critical equipment for the heavy-engineering sector. Effective May 8, 2013 the government levied 2.5 per cent of import duty on all types of scrap imports, including aluminium, stainless steel, iron and steel. Also, four per cent of special additional duty (SAD) was levied on brass scrap -used for manufacturing brass artifacts, popular in developed countries. Since, India does not generate adequate metal scrap to meet the

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	9.3344

annual requirements to produce 10 tonnes of castings, it imports it from development countries. The import duty on scraps of iron and steel, stainless steel and aluminium in most other competing countries is also 'nil'. Hence, the levy by the Indian government will make the Indian Industry incompetent. This will also lead to inverted duty structure, since metal produced from scrap by free trade agreement (FTA) countries is allowed duty-free, whereas imports of scrap by manufacturers are being subject to duty.



Foundry units manufacture critical cast equipment from both ferrous and non-ferrous metal for use in automobiles, railways, heavy machinery, textile, cement, agro, power, oil and natural gas. There is no substitute of the critical cast component manufactured in foundry. The Indian foundry industry has been facing a severe demand slowdown due to the unfavourable economic situation in the West - the major destination for India's casting exports. On the domestic front also, demand from the consumer industry has been lower since the beginning of the last financial year. While the sentiment revived for a short period early this calendar year, demand of castings

started gradually waning in the last couple of months.

Interestingly, the findings of Jawaharlal Nehru Aluminium Research Development & Design Centre (JNARDDC) appointed by the Ministry of Mines also highlighted the fact there was no alternative to imports of aluminium scrap, since the availability of aluminium scrap in domestic market for producing auto components was almost negligible. The said report recommended the imports of aluminium waste and scrap at "nil" duty. India imported 45,405 tonnes of aluminium alloy in 2010-11 from Thailand. These countries enjoy the advantage of not only duty-free imports of aluminium scrap, but also the advantage of lower energy and finance cost than India. With the present levy of 2.5 per cent duty on the imports of metal scrap, coupled with duty-free imports of aluminium alloy and other components from Thailand and other Asean FTA countries, the foundry industry in India will be quickly driven out of business, which will adversely affect the employment of millions in this industry. Zain Nathani, Vice President of Metal Recycling Association of India (MRAI) held import duty on raw metals scrap counter-productive.

Poor Show

The organized sector player Hinduja Foundries Ltd has reported a net loss of Rs 42.83 crore during the quarter ended December 31, 2013 as compared to RS 51.01 crore, a year ago. Company's total income was at Rs 143.86 crore as compared to Rs 148.47 crore. The company said that its performance has been impacted due to slow down in automotive market, inadequate price compensation, volatile material price and extended working capital cycles. As a resulted company's accumulated losses as at December 31, 2013 have significantly eroded the networth of the company. In February last year the company has intimated to the Board for Industrial and Financial Reconstruction (BIFR) about erosion of more than 50% of the company's peak networth.

Gujarat - A Preferred Destination For New Investments



Gujarat has seen around Rs 300 crore investments in the last three years from world leaders in foundry technology. Brakes India Ltd, a TVS Group company, has set up a 2,000 tonnes per month unit at Jhagadia in Gujarat. Others like India Pistons Ltd in Jhagadia, Italian company Bentonite in Bhuj, apart from refractories like US-based Allied Refractory Products Pvt Ltd in Sanand have also come in the last two to three years. The overall investment in foundry and allied industries in the state in the last couple of years has been over Rs 300 crore.

One of the reasons behind these new units coming to Gujarat has been the recent

investment plans in the automotive sector in the state, starting with Tata Motors, followed by Ford India and Maruti Suzuki, Hero MotoCorp and even the latest entrant Honda Motorcycles and Scooters. As original equipment manufacturers (OEMs) come, several foundries would follow. Many foundries from other states have come to Gujarat thanks to the availability of power, which is a key requirement of the industry, said president of the Institute of Indian Foundrymen.

Healthy Exports Growth

Castings exports have shown phenomenal growth over the last few years. Shipment of

CASTINGS EXPORTS	
Financial Year	Shipment Value (Rs Cr)
2009-10	6672.94
2010-11	8729.16
2011-12	11745.63
2012-13	12180

metal castings has risen by approx 25 – 30 per cent to achieve Rs 12180 crore during financial year 2012-13. The overseas demand, however, has slowed down this financial year. A marginal slump in castings shipment cannot be ruled out for the current financial year. Typically, each foundry cluster is known for catering to some specific end-use markets. For example, the Coimbatore cluster is famous for pump-sets castings, the Kolhapur and the Belgaum clusters for automotive castings and the Rajkot cluster for diesel engine castings, Howrah cluster for sanitary castings etc.

Conclusion

Slowing down global economy is set to impact India's foundry sector badly. While domestic demand has lessened due to negative growth in auto and ancillary sectors, other user industries have also shown a decline in their consumption trend.

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