

Large Problems, Larger Scope

Fuelled by tremendous opportunities and lessons that can be learnt from China, the SMEs in the Indian foundry industry have as much to gain as they can lose.

THE Indian foundry industry is the fourth largest player in the world, with an annual export turnover of Rs 2,000 crore. It employs over 7 lakh people. Interestingly, out of the 4,500 foundries in India, only 250 are in the organised sector, with 400 meeting international specifications and 6 catering to the high-end value chain. The rest are tiny, small and medium foundry units that are mostly consolidated into regional clusters, including the Pune, Chennai, Agra, Howrah, Coimbatore and Belgaum clusters. The industry currently produces about 7 million tonnes of castings a year, amounting to about \$8.3 billion and has the potential to produce 10 million tonnes by 2012.

The SMEs in this industry have a lot to gain from the international market due to global foundries and automotive industries facing increased labour costs, scarcity of labour and lesser direct suppliers. Here, India's competitors are China, Korea, Brazil, Turkey and Taiwan.

For instance, American municipalities and utilities purchase thousands of India-made manhole covers, sewer grates, water metres and metal castings. Within India, there is demand from the infrastructure and the auto component industries.

Known as the 'mother of all industries', the foundry industry produces castings and forgings for machine tools, automobiles, equipments, valves, electrical machinery and many more, with grey iron castings forming 75% of the total castings, followed by steel, ductile iron and non-ferrous castings. SMEs take care of the majority requirements, especially in engineering, tools, equipments, castings and even forgings.

There are vicious problems plaguing the industry and SMEs should work around them by making use of opportunities. Emphasising the

most important problem, RP Sehgal, Vice President of the Institute of Indian Foundrymen (IIF) says, "Like Japan and China, Indian SMEs should have local selling agencies that register and market their products. All the units should work together to supply, which is a type of co-operative system. Even with zero duty on scrap, SMEs are disadvantaged, as the onus is on quantitative production. So if 20 SMEs pool in together, the seller is not interested in 20 different negotiations. A local selling agency eliminates this problem. For instance, Sony is made up of hundreds of SMEs working together on standard models, inspection methods, products and processes. Everything is standardised, branded and sold as Sony."

The IIF with the Indian Institute of Technology (IIT) in Mumbai is forming a casting clinic, where SMEs can take their problems. Experts in the field will be able to generate solutions by virtually creating and simulating the industry on the computer.

SMEs have many advantages, including product differentiation and complexity, the abundance of workforce and the ability to engage in fractional production. They produce 80% of the castings export today and many of them are also environmentally conscious. The

Agra foundries, for instance, opting for cokeless cupolas.

There are, however, more problems. Says V Narasimhan, Executive Director, Brakes India Ltd, "In my 35 years in the industry, I have not seen such savage increase in the prices of energy, scrap and pig iron. Within a period of 3 months, the cost of input material has increased by 60%."

Foundries also cannot increase their prices because most of the projects are contracted and hence timeline-bound. Added to this, there are no fresh investments and SMEs cannot afford technological upgrades and other facilities, with many OEMs demanding complex, high-end auto parts, increased quality and competent supply chain efficiencies. These disadvantages have forced about 500 foundry units to shut down.

The Government of India has encouraged technology transfer through a joint venture with foreign companies but foundries should also be made self-reliant

and for this, an investment to the tune of \$3.5 billion is necessary. Mr Narasimhan adds, "Foundries should understand the business economics of the industry. A business model is important. They should also pursue TQM, TPM, Six Sigma and Lean Manufacturing. India is becoming the manufacturing hub for cast metal components and each foundry needs to position itself appropriately. Individually, companies can also look at potential partners in the West who will be willing to work with them."

Stressing on the need for external action, N Balaraj, President of the Coimbatore Tiny and Small Foundry Owners' Association (CTS-FOA) says, "Apart from the high power cost, poor power quality is a major problem. The low tension (LT) limit should be increased from 150 HP to 250 HP." The Coimbatore industries have formed themselves into a cluster thanks to the help of the Central Government and also the Coimbatore Industrial Infrastructure Association (COINDIA).

Inclusive growth is a major concern in India. The SMEs in the foundry industry are highly job-intensive, which is all the more reason to prop them up. Mr Narasimhan adds, "Due to high domestic demand, China is putting restrictions on exports. It wants all the foundries to supply to domestic demand. So India is today becoming the hub for casting exports. This is the most opportune time to make everything conducive for the foundry industry. The Indian SMEs must raise their voices about this. In China, coke and coal prices have gone up, which has increased scrap prices. The government can get into a barter deal with China over coke and iron ore."

After 21 years, India hosted the 68th World Foundry Congress (WFC), which is the most important event of the world foundry fraternity, in February 2008 in Chennai. With the spotlight on them, Indian SMEs in this sector now need to seize the opportunity and work towards turning things into their favour.

