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Manufacturing – The key to growth and innovation

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Foreword

Welcome to the fourth edition of our Deloitte Private newsletter, and the current edition's focus is "manufacturing".

The events of 2020-2021 prompted several mega trends, of which one of the most important is the emphasis nations are placing on building resilience in their value chains, to provide both, citizens and the market, with an assured supply of products and services. Reforms, policies, and incentives introduced across nations emphasise and encourage in-country value additions through domestic manufacturing, and alternate country sources, to risk supplies and enable organisations to reorient their supply chain and manufacturing footprints.

For India, this could be the tipping point. As footprints reorient, there is an opportunity for India to be the "destination of choice", given the twin benefits for companies – a large domestic addressable market and a cost-effective manufacturing ecosystem to serve global markets. It would also enable the country to increase the manufacturing contribution towards GDP from the current sub-17 percent levels, to the 25 percent envisioned by the Government of India. This journey would not only create jobs, but also provide a boost to the ecosystem of suppliers, channels, and service providers and significantly enhance India's manufacturing competitiveness.

The Government has accelerated the 'Make in India' movement by introducing a set of reforms under "Atmanirbhar Bharat". A significant one is the Production Linked Incentives (PLI) scheme that offers incentives on incremental sales for products being manufactured in India. Thirteen schemes, totalling approximately $27 billion in incentives and covering key segments of Indian industry, have been launched since March 2020. Other enabling reforms, such as the Manufacture & Other Operations in Warehouse Regulations (MOOWR) have also been directed at enhancing the competitiveness of India's manufacturing sector and thereby improve the country's global value chain participation.

Leveraging these opportunities, however, requires the industry and organisations to address some of the key areas that impact manufacturing competitiveness. These include strategic aspects such as, developing capabilities to enhance their visibility within the supply chain (which is absent today in most organisations), creating systems to sense and navigate short-term disruptions, and significantly enhancing the use of technology in business. This must be undertaken while driving tactical interventions such as, planned cost decline for profitable growth, alignment of investments and working capital cycle to the business strategy, and reconfiguring the work, workplace and workforce in line with the near permanent changes brought about by the pandemic.

It is with this background that we have decided to specially focus on manufacturing and have curated some interesting content, that includes interviews from industry captains and a perspective on PLI that is accelerating the manufacturing ecosystem in India. We hope you find this edition both, informative and engaging.

Happy reading!

Romal Shetty

In conversation with Dr. Krishnamurthy Subramanian

Dr. Krishnamurthy Subramanian
Chief Economic Advisor to the Government of India

1. **The honourable Finance Minister and the government is confident of a strong economic recovery. Are there any challenges that you foresee to the growth and optimism?**

At our office, we track around 60 high-frequency indicators. When the first quarter decline of 24 percent happened, we were clear it was mainly because of the lockdown restrictions and that once the economic restrictions were removed, the economy will bounce back. Across all the countries, India has had the sharpest recovery.

Another important emphasis over the last one year, has been that India is very clear about its objectives and their implementation. We focussed on aggregate supply, and not just on demand. As an emerging economy, we need to recognise that we must not only expand

the aggregate demand, but aggregate supply as well, because supply-side frictions remain huge in emerging economies. That's why we have implemented a slew of reforms.

There are a lot of seminal changes that have been brought about during this time. Exclusive focus on growth, private sector enablement, thinking of wealth creation and wealth as a boon, growth through a virtual cycle starting from private investment, asset monetisation, and to reforms in the financial sector are some of the key factors that have enabled our recovery

We have also implemented several steps that will enable India to see unprecedented growth in this decade, starting from FY22-23.

Some of the challenges I pre-empt while working towards our vision are:

- Recovering from the second wave of the pandemic and mitigating the impact of the expected third wave. The most important aspect is vaccination – a "vaccine not just for the pandemic, but a vaccine for the economy".
- The long-term challenge is the implementation of ideas we have introduced through regulations and policy changes, including the privatisation agenda, privatisation of assets, capital expenditure driven growth, and enterprise policy focus on the private sector. While the government continues to focus on supporting livelihoods through economic relief packages for those affected by COVID-19, it is also front-loading capital expenditure spending, which is essential to support the economic recovery and asset creation. Despite the pandemic-induced lockdown and restrictions on mobility in large parts of the country, highway construction grew by 74 percent, year on year in April-May of the current financial year to 1,470 kilometres or 24.1 kilometres per day.

2. You have, from the start of the pandemic, articulated a V-shaped recovery for India. One may not expect uniform recovery across sectors. In your opinion, what are those sectors that would see a sharper recovery?

We must first acknowledge that when I articulated the V shaped recovery after the first quarter results came out, almost every economist or commentator made doomsday predictions about the macro economy. Our prediction was based on the resilience of the Indian economy and after careful evaluation of empirical evidence. We are glad to see that our assessment of India's resilience has been visible.

As for the sectors, the most important difference is the performance of the manufacturing sector versus other sectors. Overall, the agricultural sector output has been stable – all through last year when manufacturing and services were facing degrowth, agriculture had been continuing to grow at 3.5-4 percent.

After the unlock phase began, starting from September 2020, the manufacturing sector has witnessed the fastest pace of expansion. The PMI (Purchasing Managers Index) has been in an expansionary zone. The policy focus has been significantly high on manufacturing, including labour reforms, PLI scheme, infrastructure spending on roads and railways to reduce logistics costs, and in power, to decrease the power cost and improve the ease of doing business. Historically, across the world, countries that generated a significant number of jobs in the organised sector have been able to grow in a sustained manner, especially driven by private investment. Manufacturing is extremely critical for India to leverage its demographic dividend and therefore, policy focus is on manufacturing is important.

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3. **You had articulated the need for Indian businesses to focus on the sunrise sectors. What according to you would be those be?**
   It is very important to understand the spirit behind the concept of sunrise sectors. The cardinal principle of economics is that resources are finite, especially taxpayers' money, and it is important to spend finite resources in a way that gets maximum returns for the economy. There is an opportunity cost for the decision on each investment and thus, prioritising is important. Not all sectors can be called sunrise sectors. Sunrise sectors are the ones that offer maximum growth and benefit for the economy and thus, require higher investments.

4. **The vision of the Government of India is to achieve a $5 trillion economy by 2024. Considering the sectors and the current pace of growth, what would be the key aspects for consideration for the Government to achieve the goal?**
   We must note three points here.
   First, the pandemic has impacted the economic goals of every country in the world and is a setback for every country. For instance, ILO has estimated job losses across the world to be more than 300 million across the world, due to this pandemic. For countries like India, the potential growth was much higher, the slope of India's GDP was much steeper, as compared to advanced economies, which normally grow at 2-2.5 percent. Many publications have stated that India will take longer to reach its pre-COVID-19 path, but the reason for that is purely mechanical. The slope (of economic growth) was much steeper for India before COVID-19, so the pandemic will have a greater impact.

   That said, the economic fundamentals remain strong as is evident from the rebound we saw in the January-March quarter of 2021, prior to the second wave. The economy will bounce back once we are out of the current wave.

   Secondly, only rapid vaccination can aid in the broad-based economic recovery and the government understands that. It is taking all possible measures to inoculate the population as rapidly as possible and is also ensuring that vaccines are available and are affordable to everyone. If we achieve the aim to vaccinate 10 million people a day, we should be able to inoculate a significant proportion of the population by the end of the year. This target is definitely achievable. Our peak has been over 8 million in a day so far.

   Finally, the government has converted the pandemic into a blessing in disguise. I believe, India comes together to do difficult things when faced with a crisis – whether it was the 1991 reforms, or now. The sense of urgency for all reforms would not have been there, if not for the crisis. Rather than focusing on what more should be done, we should look at what has already been done in order to help the country grow—focus on the reforms that have been announced and the implementation of these reforms. There is a big change in economic and political thinking and the impact of these will get manifested in the next few years. After the honourable Prime Minister (PM) spoke about respecting wealth creators and the private sector on the floor of parliament, The Hindu Business Line titled its lead editorial "A watershed moment" acknowledging the role of the 2019-20 Economic Survey in bringing about this huge change.

5. **FDIs or FIIs inflows into India have remained strong throughout the pandemic. With global vaccination and "make in country" programmes, how do you view the near-term impact on FDI and FII inflows into India?**
   If there is one country that can grow at more than 7 percent-plus with the currently implemented reforms, changed economic vision, and the ability to use the crisis to create opportunity, it is India. In 2020, India received $64 billion in FDI, the fifth largest recipient of inflows in the world. The trend has continued despite the second wave, with FDI inflows rising 38 percent on a year-on-year basis in April and stood at $6.24 billion in April this year.

   FDI and FII are coming to India because investors will put their money where

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their mouth is. Also, because of capital flows coming in, India has the 4th largest foreign reserves. The current account in FY21 has recorded a surplus, not just because of "Atmanirbhar Bharat", but also due to the increase in exports. FDI and FII inflows have led to capital account surplus as well.

6. **India's Ease of Doing Business (EODB) ranking by the World Bank has moved up substantially over the past few years. What specific measures do you believe will accelerate the ranking and enable a larger participation in global trade by India?**
My take on the measures is reflected in each of the last three economic surveys. If you look at the 2018-19 Economic Survey chapter on judiciary called "Ending matsyanyaya", which means "ending the rule of the jungle", it emphasises on the ease of enforcing contracts. Out of 192 countries, we are ranked 164th in the ease of enforcing contracts. In a market economy, enforcement of a contract is sine qua non. The positive externalities and beneficial spill overs it creates is humongous. The ease of enforcement of contracts is a very important measure.

In the 2019-20 Economic Survey, we have a chapter on the ease of doing business that includes minute details such as 'what' and 'how' of enabling business activity. For example, how many days does it take for a permit, and how many days does it take for transportation of goods on international borders.

In the 2020-21 Economic Survey, we have spoken about the bureaucratic aspect of the ease of doing business. Unfortunately, In India, we think about making regulations as a complete contract. We must recognise that in trying to take care of every contingency, we are making it far harder for the common person to understand and comply. My view is if someone wants to circumvent, whatever you do, he/she will circumvent. But the whole process of including everything just makes it harder for the common person to comply. This makes law and regulations extremely complex. That's the fundamental intellectual point that needs to be understood very clearly by people who will eventually put pen to the paper on the law.

Through various efforts towards ease of enforcement, specifics on ease of doing business, ease of language/understanding on various regulations and focusing more on the enforcement and supervision part, we have tried to highlight inadequacies on law-making that must be addressed.

7. **India's global value chain participation has been an area for improvement. What, in your opinion, are the key actions and what can the stakeholders (including the government, industry bodies, and organisations) do differently? Also, what are policies that can facilitate vertical GVC linkages between domestic SMEs and larger foreign and domestic firms?**
What prevented Indian companies, especially the smaller ones in the global value chain, is more related to lack of competitiveness because of a lack of economies of scale, higher factor input costs, including labour, power, and logistics. To enable these firms to be able to participate in the global value chain, we are focussing on making them more competitive. One of the primary ways in which costs can go down for these firms is through economies of scale. Our firms have chosen to stay small because of the way regulations were made over the last few decades. For example, as per the earlier Labour law, if you had more than a hundred employees, you had to comply with different regulations; even if the promoter wants to grow, he ends up opening another firm to avoid more regulations, and that led to a proliferation of smaller firms that never grew despite aging, what we call "dwarfs".

It is the firm that grows that creates the most number of jobs; but when you have firms that have not grown, there is a lack of economies of scale and that is one of the key problems that has hobbled the Indian economy's SME sector. We have improved on the MSME definition for firms to avail of benefits that the government provides, without having to remain dwarfed.

Labour law reforms are huge, from 44-45 different laws that governed the employer-employee relationship, now we are down to four codes. The number of sections has

In the 2019-20 Economic Survey, we have a chapter on the ease of doing business that includes minute details such as 'what' and 'how' of enabling business activity. In the 2020-21 Economic Survey, we have spoken about the bureaucratic aspect of the ease of doing business. Through various efforts ease of doing business has been the government's constant endeavour.

been reduced by two-thirds. The number of minimum wagers from 2,300 has been reduced to 40. The definition of 'factory' has been changed from 10 to 50 employees. The definition of being part of statutory orders has been changed from 100 to 300 employees. If we put all these together and start seeing labour as a factor input – the cost of that will go down significantly and it will ultimately reduce costs for businesses.

As part of helping reduce costs, infrastructure spending has focussed on two key sectors – railways and roads, and power, which are other factor inputs.

These reforms take time to show their value creation in the economy, but these steps towards factor inputs will make our firms competitive as their costs will go down and they will be able to price themselves better and add value to the global value chain.

Apart from these measures, we are giving incentives to the sunrise sectors. In the last 25-30 years, India has spent its resources not necessarily on the key sectors. Therefore, we have not been able to have a larger pie of global trade. By focussing on sectors that will grow exponentially, we have enabled the economy to participate in high growth sectors.

8. **One of the key areas of focus for the government has been to achieve the target of 25 percent of the GDP from manufacturing. How do you view the impact of the production linked incentives (PLI) scheme in the near and medium-term on the manufacturing sector specifically around investments, innovation, skill development, and generation of intellectual property?**

The main collateral benefit I see is in the service sector. While conceptually we make the distinction between manufacturing and services, in reality, most manufacturing sectors use the services sector and they can't be competitive without this sector. When these firms grow and participate in the global value chain, services also benefit.

Some of the collateral benefits like innovation, skill-development, and generation of IP may take longer but services would see collateral benefit as manufacturing picks up.

9. **On the same note, to realise the 25 percent of GDP ambition for manufacturing, a major consideration is "total factor productivity" (TFP), which has been lagging when compared with our peer countries. How do we enhance competitiveness and enable all segments of the industry to embrace technology?**

Part of the legacy problem from a socialistic economy is that there is a mindset change that is required, not only in the government sector, but also in the private sector. The private sector waits for the government to make changes. In a market economy, companies should be doing what is profitable, not having to wait for the government to make changes. Government intervention should happen only when there is a market failure. If there is no market failure, there is no need for any government intervention. In the specific area of technology, the private sector needs to invest on its own.

Over the last three decades, TFP has improved significantly. From a sectoral standpoint, TFP in the agriculture sector has been stagnant. Reforms in the agriculture sector and an agriculture infrastructure reform fund of INR 1 trillion are extremely important because one of the key problems in agriculture is the absence of a vibrant market. Reforms are necessary but investment in infrastructure will provide sufficient conditions for markets to develop.

The reform emphasis, whether it is privatisation, asset monetisation, MSME definition changes, or labour reforms – all are removing supply-side frictions, which would in return help improve productivity. My view is when assets are managed well, then productivity improves. The reforms are intended to enhance TFP significantly.

Our expectation of a high-growth decade for India is based on two aspects – capital formation and incremental capital-output ratio (a measure of productivity).

Large firms bring the most improvement in productivity. Similarly, new entry/entrepreneurship is extremely important. To quote Joseph Schumpeter, the Theory of Creative Destruction is extremely important because it challenges typical methods. As per Credit Suisse's latest report, India now has more than 100 unicorns and none of these are from a dynasty, nor do they have political connections. These have been developed simply from the merit of the idea and that's what enhances productivity in the economy.

These are some of the changes that will help productivity improvements as we go forward.

10. **During the previous year, there was considerable attention and support for MSMEs from the government through a change in definition, access to finance, atmanirbhar package, etc. Would you recommend extending the PLI scheme for MSMEs across sectors to enable them to scale up, and improve economies?**

It is not true that an MSME is not a part of the PLI scheme. The scheme requires that a firm attains a certain level of growth, since it has been devised to incentivise growth. PLI requires a commitment of growing the production every year by a certain percentage, therefore the prerequisite is growth, not scale. So far, it has attracted several large corporates and MNCs in the telecom space, renewable sectors, and electronics, amongst others, but is also incentivising SMEs to expand their economies of scale.

11. **In one of the economic surveys, you had emphasised on "Assemble in India" to improve job creation and contribute to the economy. Where are we on that journey? What according to you should be done by the centre and the states to accelerate the "Assemble in India"?**

The "Assemble in India" idea that was articulated in last year's economic survey was in the context of global value chains (GVC). India can be a part of the GVC by assembling. For example, Maruti started assembling Suzuki products in India, which has now converted into ancillary industries. The ecosystem has developed over time and now complete products are manufactured in India. It took almost 25-30 years from assembling to move to production. We can reduce this time, but the important factor is we start with assembling and then move into production for the entire value/ supply chain.

The specific sector that the survey covered for "Assemble in India" was network products. This sector has been selected for the PLI scheme because it has enormous opportunities. The idea of enabling exports in the network products sector is being implemented through PLI.

12. **How do you foresee the impact of investments in infrastructure (including the National Infrastructure Program (NIP)) on the competitiveness of India's manufacturing? What specific metrics would be impacted?**

As a part of the cost of production, the cost of logistics is around 20-25 percent of the total cost. If we are able to bring down the logistics cost by 15 percent to 20 percent, that translates to direct improvement in the margins, or if the producer wants to keep the same margin but reduce the price, they can thereby gain larger market share – the choice is with him. That's where the emphasis on railways and roads as part of NIP will be critical.

13. **A privatisation target of INR 1.75 lakh crores has been planned for FY 2021-22. For the companies in the process, what are the major outcomes you expect post the disinvestment and the impact on competitiveness?**

Firstly, privatisation requires us to move assets from the hands that are not able to make the best productive use of these assets to the hands that can use these assets more productively. Pre-1991 also, India tried to build a self-sufficient economy but relied upon the public sector to do it. If we talk about "Atmanirbhar Bharat", it is designed to rely on the private sector. Also, the ability to give incentives is

much stronger in the private sector. Therefore, the idea to build a self-reliant India through the private sector has much more of a likelihood to succeed, than through the public sector.
Increased privatisation would mean competition. Therefore, the role of the Competition Commission of India will only increase as India moves to a private sector-oriented economy. Their role in enforcing a free and fair market will be far more important.

The main idea is to improve productivity in the economy through privatisation. Also, as we discussed earlier, taxpayers' money is finite, and should be invested in education and healthcare. The rationalisation of funds away from public sector enterprises, into something like healthcare and education will aid in growth.

We are confident of achieving the target of INR 1.75 lakh crores. It includes BPCL, LIC, IPO, CONCOR as some of the entities. The year FY20-21 will be remembered for the significant push the government made in privatisation.

14. Finally, you recently mentioned that 'creative destruction' is crucial for the Indian economy. What would be your guidance to Indian manufacturers?

As my message to entrepreneurs, I would like to urge them to create more unicorns and look for places where the market is not working, i.e., mismatch of demand and supply. Take for example, EduTech start-ups. There is a demand for high-quality education, which existing entities are not able to provide. EduTech caters to these demands, thereby fulfilling the demand and supply gap. Some of the other examples are Swiggy, Zomato, and organic food.

The other examples, where there is a need for a market solution, are the skilled labour force problems and the migration of people from East India to West /South India for jobs.

I would like to urge entrepreneurs and incumbents to identify these kinds of market gaps and create ideas, that will make them rich and famous and at the same time benefit the economy. For incumbents, I would like to emphasise that rather than trying to undermine competition, respect competition. The tendency of thinking about growing the pie, contributing to the country, and thereby growing the entity should be the way forward, because they have an important role in enabling the ecosystem in creative destruction.

Macro-Economic Update

The manufacturing industry: It's time to rediscover its path to prosperity

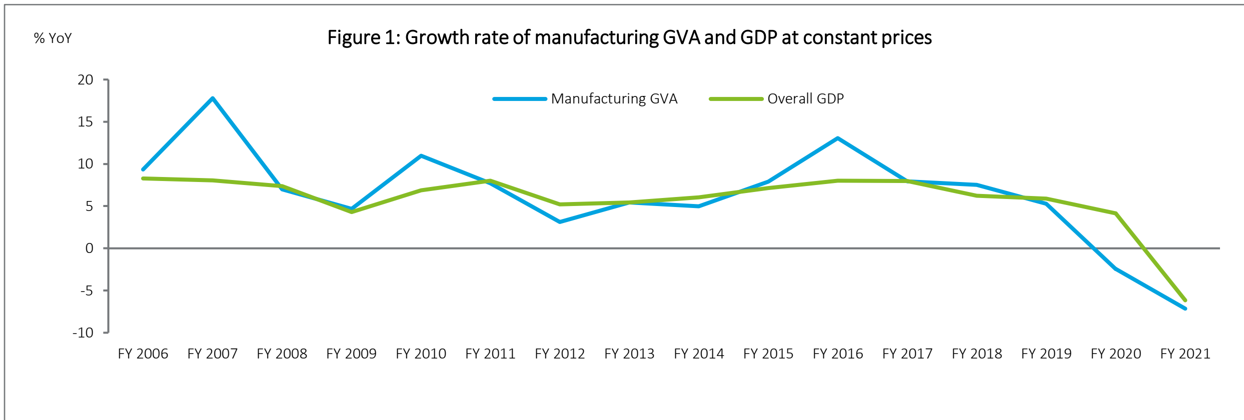
The COVID-19 pandemic has tested the mettle of even the strongest manufacturers in India. The industry was struggling with a slowdown even before the onset of the pandemic; the crisis has led to massive supply chain and labour force disruptions and a precipitous fall in demand for goods and services (figure 1). The industry witnessed record contractions in output, new orders, and employment with growth in the industry falling faster than the overall GDP in FY2020-21.

The industry was also amongst the fastest rebounding sector, as movement restrictions started easing after the first wave of the pandemic. However, the recovery seems to have derailed after the country was struck by yet another wave of COVID-19 in late March 2021, which was far more severe than the first wave. With a majority of state governments imposing restrictions on mobility and businesses in the first quarter of FY 2021-22, economic activities were severely impacted even though state lockdown rules were much more relaxed for industrial activity and movement of goods than last year's nation-wide lockdown.

According to our latest projections, economic activity is expected to pick up rapidly in the second half of FY 2021-22 and may flow into the next financial year.[i] Factors such as a potential increase in the pace of vaccination, the diminishing economic impact of successive infection waves, and the oncoming festivals in the following months, will likely boost consumer and investor spending owing to a strong pent-up demand. The Centre is trying hard to ramp up its vaccination drive through the availability of more vaccines and streamlining the vaccine supply chain. We are cautiously optimistic about the economic growth in FY2022 with the possibility of growth ranging between 8.8 percent and 10.4 percent in FY 2021-22 in our baseline scenario.

The role of the government has been, and will be, important to achieve the target of boosting manufacturing sector's share in the GDP to 20 percent by 2025. In the past, the Government has introduced schemes such as 'Make in India', 'Start-up India', 'Skill India', modified industrial infrastructure up-gradation scheme, business reform action plan, and intellectual property rights (IPR) policies were introduced to improve the business environment and boost domestic manufacturing.

Figure 1. The manufacturing industry contracted faster than overall GDP in FY 2020-21



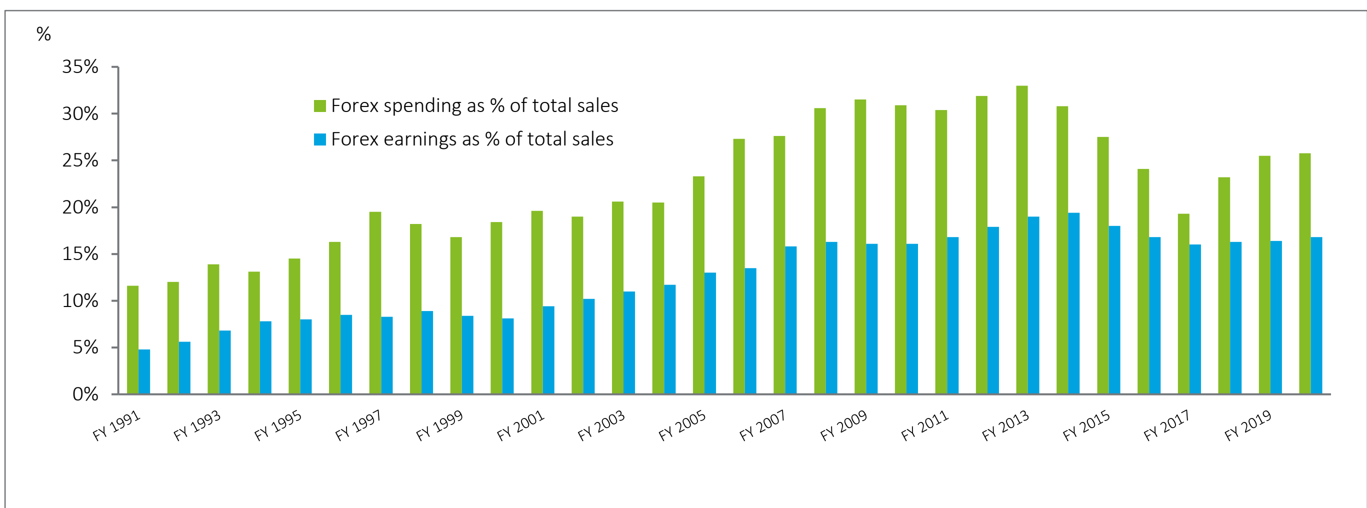
Sources: CMIE, MOSPI

What this means is that India's medium to long-term economic outlook is strong compared to other Asian countries, except China. Strong growth is expected to improve the income and purchasing power of consumers. A significant presence of millennials will require businesses to innovate and penetrate rural India, a market that is large and where median incomes are rising faster than in urban areas. All these bode well for the manufacturing industry as pent-up demand together with recent policy initiatives directed towards manufacturing could spur a sustainable recovery.

But the path to prosperity is dotted with challenges

A few old, but persistent, and new challenges continue to dent opportunities for the long-term potential of the industry in India. Age-old challenges such as inadequate infrastructure support (such as transportation, warehousing facilities, logistics, and availability of utilities and power, amongst others), poor access to low-cost raw materials, rigid land and labour laws, and an overbearing bureaucracy and regulatory hurdles have resulted in an elevated cost of production, inefficiencies, and high dependency on imports. For instance, the forex earnings as a percentage of total manufacturing sales have remained in the range of 16 percent to 19 percent over the past few years, while forex spending is much higher between 25 percent to 31 percent (figure 2), indicating a high import dependence.

Figure 2. The import dependence in the manufacturing industry has remained high



Sources: CMIE, India EXIM Bank Research

The significant presence of micro and small enterprises and the informal sector have hurt economies of scale, while low R&D and the lack of technical know-how and innovation have limited the productivity and competitiveness of the industry. Restrained access to credit for medium and small industries, reduced willingness by banks to lend, and high interest on working capital loans have escalated operational costs and pressured margins.

Global factors have contributed much to the existing troubles. Be it the rising environmental awareness of consumers leading to demand for sustainable and reusable resources, or accelerating technology and innovation, these trends are powerful disruptors that are constantly forcing the industry to review its strategy to remain competitive and succeed. Many of these trends have accelerated after the pandemic. To respond to the shifts in consumer preference for online purchases, transportation challenges, need to digitise operations, COVID-19 has necessitated greater agility and speed with which manufacturers have had to manage strategic risks, navigate disruptions, and revisit business plans.

Every challenge brings its own set of opportunities

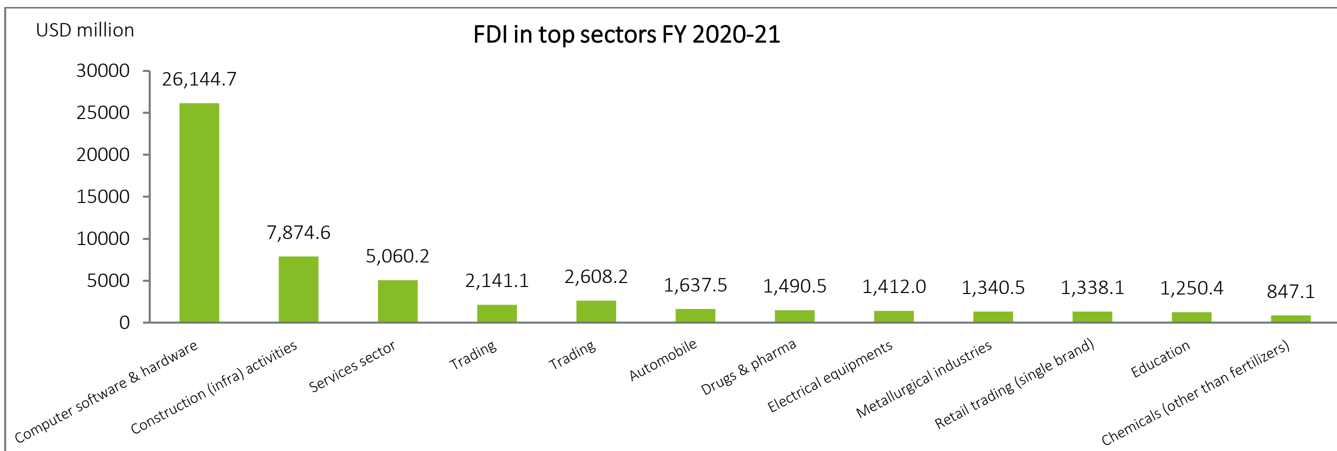
With the increasing realisation amongst global manufacturers about an overdependence on China, as they re-evaluate and diversify manufacturing supply chains, India has certainly emerged as a key alternate investment destination. Major manufacturing and investment announcements by Tesla and Apple are set to ascertain India as a hub for manufacturing on the world map while creating jobs and encouraging more foreign investments. Besides this, new customers, markets, materials, and technologies await exploration and provide unlimited opportunities for expansion and growth.

Undoubtedly, India promises enormous long-term advantages, such as a young demographic base, growing incomes, an expanding (and globalised) middle class, a fast-growing potential market, an educated workforce, and a stable democracy. These have enticed investors who have wanted to tap the potential of increasing domestic demand and remain in close proximity to a large consumer and talent base. The fact that even amidst the global slowdown and COVID-19 aftermath, the total FDI inflows to India during April-December 2020 amounted to $51.47 billion, an increase of 40 percent YoY (FIGURE 3). Within manufacturing, electrical equipment, pharmaceuticals, automobile, and chemicals attracted the maximum FDI. However, there is significant competition from other peer nations such as Vietnam and Bangladesh, and Indian manufacturers will need to focus on differentiators to attract investment towards India.

The start-up India initiative was launched by the government to build a strong ecosystem for nurturing innovation and start-ups.

Various steps have been undertaken, such as the national infrastructure pipeline (of INR 1.02 lakh crores), reduction in corporate tax, easing liquidity problems of NBFCs and banks, and trade policy measures to boost domestic manufacturing.

Figure 3. Computer software and hardware, construction, and services sector were the three largest investment destinations for foreign investment



Sources: DIPP, CMIE

For India to realise its full potential in manufacturing, it has to quickly address its structural inadequacies and vulnerabilities, many of which came to the fore during the pandemic. For manufacturers, it is time to

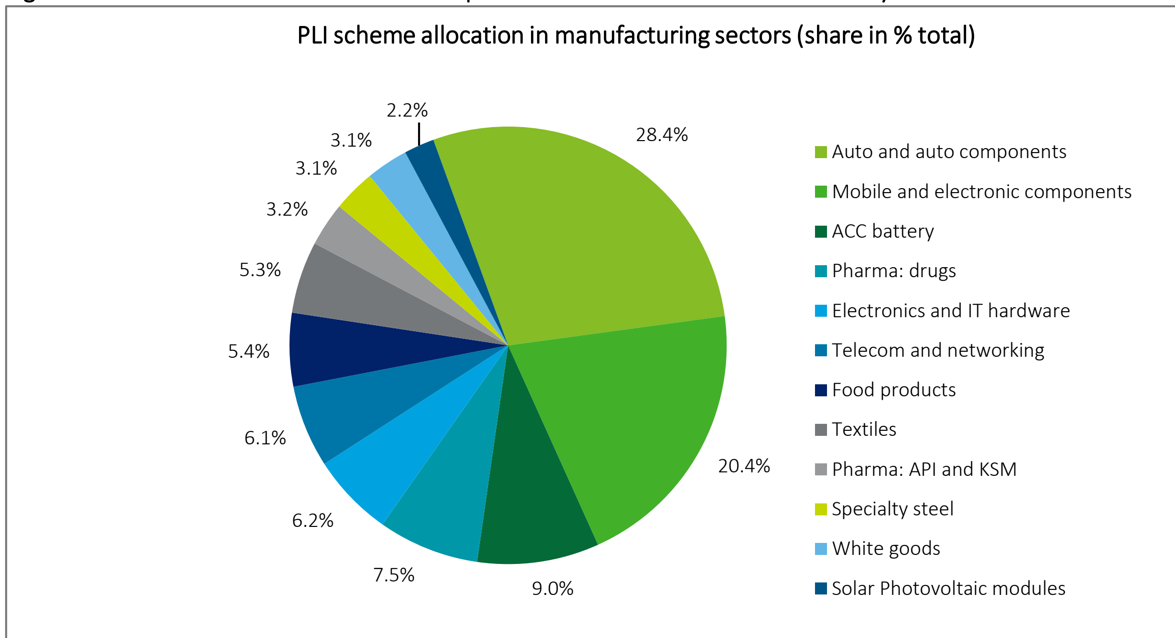
1. Improve resilience to demand and supply shocks by effectively coordinating between supply chain, production, logistics, inventory, sales, and customer relationships. They must also ensure access to working capital.
2. Focus on import localisation (for a few manufacturers) and capture domestic demand by increasing economies of scale and cost competitiveness.
3. Increase productivity and capabilities by widening and deepening links (through backward and forward linkages) to the global value chain.
4. Drive higher performance and create exponential results by innovation, technology integration, and talent upskilling and reskilling.
5. Engage in smart manufacturing ecosystems, where different manufacturing and service entities come together in meaningful ways to solve shared challenges and meet shared objectives.

Key government initiatives

Needless to say, the role of the government has been, and will be, important to achieve the target of boosting manufacturing sector's share in the GDP to 20 percent by 2025.[ii] In the past, the Government has introduced several policy frameworks aiming to create a conducive business environment. Schemes such as 'Make in India', 'Start-up India', 'Skill India', modified industrial infrastructure up-gradation scheme, business reform action plan, and intellectual property rights (IPR) policies were introduced to improve the business environment and boost domestic manufacturing. The start-up India initiative was launched to build a strong ecosystem for nurturing innovation and start-ups. Apart from these schemes, various steps have been undertaken, such as the national infrastructure pipeline (of INR 1.02 lakh crores), reduction in corporate tax, easing liquidity problems of NBFCs and banks, and trade policy measures to boost domestic manufacturing.

The efforts have intensified after the pandemic. Post the launch of Atma Nirbhar Abhiyan (AB) in March 2020, the Department for Promotion of Industry and Internal Trade (DPIIT) identified industries to focus on to make India self-reliant, become a global supplier, and boost exports. The government subsequently launched several schemes, such as Production Linked Incentives (PLI) to 13 sectors with a total budgetary outlay for these schemes is INR 1.97 lakh crores or $26 billion and an extended Phased Manufacturing Programme (PMP). The push towards improving infrastructure—considered India's Achilles heel—was also evident in the recent budget.

Figure 4. The PLI scheme in 13 sectors is expected to boost investment and activity



Source: Press Information Bureau

Going forward, the schemes and announcements have to be backed with a credible implementation of the planned projects, ascertaining sufficient funds to invest, and re-engage with global investors by creating an ecosystem that drives efficient manufacturing. India has to overcome a lack of consensus in policymaking, and effectively coordinate the centre and state policies to improve its "doing business" environment. Since MSMEs play an important role in manufacturing sector output and employment, the government should ensure their sustenance during the pandemic and deeper integration in the manufacturing value chain through incentives.

As India's policymakers try to establish India as the next powerhouse for manufacturing over the next decade, it is worth asking two questions. Does India have what it takes for a giant leap? And will policymakers be able to lead the economy to greater heights? The answer to the first question, we believe, is "yes." And the time is "now".

In the following sections, we reach out to India's top policymakers of Niti Aayog to get their views and outlook of the manufacturing sector and understand the growth strategy that can address the nation's long-term challenges and push the economy to new heights.

The government launched Production Linked Incentives (PLI) to 13 sectors with a total budgetary outlay for these schemes is INR 1.97 lakh crores or $26 billion and an extended Phased Manufacturing Programme (PMP).

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[i] Rumki Majumdar, *The tunnel just got longer, but you can still see the light*, Deloitte, June 2021, https://www2.deloitte.com/in/en/pages/about-deloitte/articles/the-tunnel-got-longer.html

[ii] Niti Ayog (The planning commission of India), *The manufacturing plan, Strategies for Accelerating Growth of Manufacturing in India in the 12th Five Year Plan and Beyond*, https://niti.gov.in/planningcommission.gov.in/docs/aboutus/committee/strgrp12/str_manu0304.pdf

In conversation with Vikram Kirloskar

Vikram Kirloskar
Chairman and Managing Director, Kirloskar Systems Limited and Vice Chairman, Toyota Kirloskar

1. **You are renowned for successful and long-standing joint ventures (JVs) in manufacturing with global companies. What have been the key drivers of success?**
   When I was in college at MIT, Kirloskar had a JV with Cummins - Kirloskar Cummins, which was a successful venture. I started my career at Cummins in Columbus and then at Kirloskar-Cummins in India. I was sent to Mysore Kirloskar which was in trouble at that time and we finally had to sell that business as we couldn't make the business competitive. I then started two other businesses with an American partner. Kirloskar brothers had a JV with a Japanese company before Toyota, called Kirloskar-EBARA.

   JVs work well, provided the partners involved have a common vision. If any

partner has a different vision or objective, then the JV falls apart very quickly. One of the biggest reasons we can work well with the Toyota family is because of the agreement with them on a common vision. Our JVs with Toyota are not only in the cars business, but also include forklifts, textile machinery, components, insurance and other businesses.

When partners have a common vision and goal, then shareholding does not matter, the goal matters and as long as the focus is on that, it works. In my view, it is not just about financial goals, but also philosophical goals that you want to achieve, a certain position or reputation of your business and how you want customers to look at you as an organisation. I believe it is the sum of all these things. We discuss these things every year at our partners meeting.

For me, the most important aspect is to have clear common goals with partners.

2. Does culture play a significant role?

In my view, more than culture; governance, ethics and transparency play a bigger role. Cultures are going to be different. We have worked with both American and Japanese organisations, and cultures are very different, yet transparency with the partners was the key and it worked well. In my own experience, with Toyota, I used to share issues and problems beforehand on various decisions, and that helped us build a strong relationship.

3. The industry that you are deeply involved with - automotive - is undergoing a major transformation driven by the shift towards electrification, which requires significant investments across the value chain. In this journey, how can companies and their suppliers successfully address costs from existing investments in footprint and technology?

One basic aspect of the auto industry that I have understood is that growth of your company is dependent on the price of your used car. The value your used car retains in the market will command a higher price for the new car. Technology will keep on changing - petrol, diesel, electric, ABS, safety systems, hybrid, etc. It is this basic principle of differential price your used car derives that will command the price.

If you look at the growth of Toyota in the last 20 to 30 years, the real reason is because of the higher value derived from the used car. Basically, top class quality and reliability. It is a very important factor for the customers.

From a technology perspective, the biggest challenge for the auto industry will be environment and safety. More than the external environment pressures, more internal changes are necessary.

We must make products safe, based on global standards, and ensure they are environment friendly as well. From an environment perspective, each country has different standards and requirements and our objective is to reduce the net carbon emissions and not be worried about which technology does that. We should focus on technology to reduce the carbon footprint and keep our vehicles safe – that will be the way to success and investments should follow that.

4. Have you seen promoters shifting the focus towards environment?

I will take our own example - we ventured into small cars, which were not successful. We are successful in making large cars a profitable business. We have good cash reserves that will fund our investments for next four to five years. The biggest reason we have for reducing the carbon footprint in our processes, is that it helps reduce our costs. We are saving INR 30-40 crores per year (on a per car basis) by reducing electricity consumption per car and by opting for renewable energy. Similarly, we have seen cost benefits in water, logistics, and packaging. It's an economic decision. The returns on investments on electricity and water is paid back in one or two years.

In my view, to improve overall efficiency in manufacturing, we should look at reducing carbon footprint and focus on environment friendly operations.

5. We heard of your passion to build factories. How do you view India's attractiveness as a manufacturing destination in today's

Joint Ventures work well, provided the partners involved have a common vision. When the partners have a common vision and goal, then shareholding does not matter, the goal matters and as long as the focus is on that goal, it works.

Governance, ethics and transparency play a bigger role than culture in building a successful JV.

Improvement in efficiency in manufacturing, would come by reducing carbon footprint and focus on environment friendly operations.

scenario where many countries are directing policies towards in-country value addition?

Pre 1990s before the country opened up, I was working with Kirloskar Cummins. At KCL and other group companies, we could increase our prices every year – we had good returns and we had high quality products. When the country opened up and things started changing, we started a programme to conduct training sessions with our managers – we had a plan to develop 2000 managers by the year 2000. We ran a week-long programme and we went through intense scenarios where every day duties were changing and to help them understand how our businesses can survive. That was a very good programme and we came up with innovative ideas, especially for restructuring.

Later, I looked at the factory's capital investment. While I got involved with Toyota, my first idea was about how can we bring in the best of manufacturing practices, with an objective to redo our manufacturing process. We spoke to union leaders who were then willing to get retrained based on the requirements. We stopped our investments for two years, and in the next couple of years, our revenue to our capital employed improved by three times, which was mostly through marginal investments in skill and attitude training. We became cash rich. The key aspects we looked at were value added to the company (Revenue minus cost of materials), capital employed per person, value-added per rupee spent on employees. We started looking at these ratios and compared it with our competitors and reorganised our factories. Over a four to five-year period, there was a huge difference in total capital employed, current ratio, borrowings, etc.

For our investment in new plants, like the Kolhapur engine factory, we started with the basic framework of addressing costs. The cost of adding value must be less than the cost at the existing old plant. We worked on this principle for the smallest of things and the new plant hit its break-even point within first 6-7 months.

You have to get into the details and the objective has to be clear. The cost of adding value has to be reduced after new investment. You should look at the investment proposal on the principle of adding value, and conduct multiple iterations to come up with a plan, so that your cost of added value is lower than others. That's my biggest learning in last many years.

6. **What disruptions do you perceive for the future of mobility in the post COVID-19 scenario? Do you foresee a change in the role of the automotive companies? Where would they play in the value chain?**

As things are changing, there will be increased focus on public transport, including environment and safety concerns. The quality of public transport is improving, but the problem is in last mile connectivity. Layouts of cities are not the way to make it easier to create public transportation. The companies would work on the last mile connectivity. 5G will bring in lot of changes related to systems, and security of data will be bringing other changes. Technologies that reduce energy consumption will be key. Pressure to reduce overall energy consumption will also be key. Companies will have to keep investing in new energy conversion technologies – i.e. the current investment in engines may not show returns after the years 2030-35.

In some areas, technology may change slowly, gear boxes, suspensions, and other structural elements.

Toyota has also started investing in shared mobility, AI companies, licensing hydrogen technology for auto and non-auto like ships, trains, cars, power generation, etc. Companies are looking at different areas to use their core competencies. Toyota has got into boat building, energy efficient buildings/houses, etc. Changes have been done in all organisations to meet the challenges of the future.

7. **If you look at local market with PLI initiatives, especially in Auto, what is the biggest disruption in the next 2-3 years?**

We should be prepared for more electrification, but my biggest worry is the energy scenario in India. The growth of coal fired power plants, and power goes off three times in a day at home. The investment required in infrastructure for next 20 years is required to sort out basic energy reliability. At the earliest it will be 2030 by when the power generation from coal starts reducing in the entire energy equation. We will not get reduction in carbon because of our requirement of electricity generation soon. We will have to look at green hydrogen, we will have to innovate, and it will involve deep thinking into energy consumption to reduce the real carbon footprints. Till then companies like us will have to keep the portfolio more open – ICs, hybrid, electric, etc.

8. What is the biggest shift that you foresee in the role of boards the next three years? What do you believe they need to do to adapt themselves to the changing landscape?

I am on the board of only a public listed company and I have private, closely held companies. From the boards perspective, we have very high-level internal audit processes in the system. We have long internal audit meetings – follow governance like a public company. One part of a board's role is to ensure a high-level of governance and internal transparency. Car companies around the world tend to be relatively centralised in manufacturing and sales. The parts of R&D would be at different places, because the product is similar everywhere with little nuances in each country.

Here at Toyota Kirloskar Motors, we have manufacturing and sales in an all in one unit versus how Toyota works in US. For an independent company, the board has to play a deep role in governance both, in medium-term and long-term strategy, with regards to goals and objectives, competitiveness, and where are you on various metrics.

9. We understand that you have a keen interest in Indian history. What learnings have you found most relevant for your organisations over the years? Any thoughts on how India's manufacturing sector can leverage them in the current context?

When I went to Lawrence school in 1969, I had to decide between Science, Commerce and Arts. I ended up with Math, Physics, Chemistry and Biology and some literature and hardly had exposure to History, and English writing. When I went to college, my challenge was not science subjects but writing a paper (reading a book and writing a paper). At MIT, you have to take one humanity course every term. I did a lot of literature in English, drama, music, etc. From there I realised, you need humanities, we don't teach enough humanities in India.

I never got a chance to read serious history till recently. I used to read books by Manohar Malgaonkar, though fictionalised history was very fascinating. After my grandfather SLK died, I got his collection of books and I came across an old publication, "History of Mahrattas" by James Grant Duff, and it fascinated me a lot. That book also revealed something about my old house at Cunningham Road, Bangalore – the apartment building used to be the property of the Nawab of Savnoor and the property next to it (behind) belonged to Sandoor. I read about Nawab of Savnoor and Sandoor in the History of the Marathas. They were friends and were always on the same side and had properties next to each other – this was very fascinating. I feel that history continues, lots of relationships continue for much longer than we think.

I have been reading a lot of history and biographical books. The one I find most fascinating is from Dr. Uday Kulkarni who has written three or four top class books on Maratha history. The latest one I am finishing is "The Extraordinary Epoch of Nana Saheb". He has written on Nana Saheb, Bajirao and Panipat.

That's something that got me really into History by reading more and more.

> The board of the company plays a deep role in governance both, in medium-term and long-term strategy, with regards to goals and objectives, competitiveness, and other business metrics.

10. On succession planning - with your personal experience of being a 4th generation entrepreneur and with the next generation being inducted, what would be your guidance on preparedness to business families in the manufacturing sector?

For Toyota, the great grandfather of Mr. Akio Toyoda started the textile machinery business. Almost all their companies have a Toyoda family member as a Chairman or a President. What I also found interesting is that a lot of relatives of team members work in the business. It is an interesting combination where parents and grandparents of many senior people have worked in the company. One thing which is clear, which I learned from Toyota, is transparent succession and career planning. The strongest department in Toyota Motor is the HRD department. If anyone has to be the head of the company, they have to be the head of HRD at some point of time. Toyota has a very clear, transparent, and structured career planning system. That is very essential.

In my case, I have a daughter. I decided to stick with a holding company structure after the share split between my family members. We are making some board level changes to our companies and she will come onboard. But ours will be led by professional managing directors only.

My representative on the Toyota Motor JV is the Joint Managing Director. I am not the official representative.

What I realised is that it completely depends on the business. Each family is different and if they have controlling stake, it depends on how competent the people are and what are their interests; but it is a tough decision.

11. And finally, if there is one decision in your successful career that you would like to overturn today, what would that be?

I think I have made lot of wrong decisions if looked at them in hindsight. But I try to analyse my bad decisions and learn from them. Early in my career as an engineer, I used to feel everything can be sorted through engineering and science. Later I realised that value-added ratios, how to be more competitive, etc. are also equally important. One must respect all aspects in life and business and the value of accounting skills, money skills, business skills, and HR skills. Subsequently, now when the economy has become competitive, all aspects are given equal voice and respect in developing plans and strategies. This is something I would have liked to do better.

Transparent succession and structured career planning system are the essential elements for succession planning.

The impact of Production Linked Incentive (PLI) schemes on India's manufacturing landscape

Background

With the vision of a 25% contribution of manufacturing to the GDP and aligned to the Atmanirbhar Bharat initiative, the Government of India in March 2020, launched an industrial development incentive scheme aimed at attracting investments in manufacturing called the Production Linked Incentive (PLI) Scheme which provides incentives on incremental sales for products manufactured in India.

Objectives of the PLI scheme

The scheme aims to make manufacturing in India globally competitive by

- creating economies of scale and therefore global champions in manufacturing
- enabling the complete ecosystem and,
- enhancing efficiencies and improving cost competitiveness of domestically manufactured products

Since March 2020, a total of thirteen schemes have been approved with a cumulative incentive about 1,97,000 Cr. for a period of five years with typical incentives in the range of 4-6% of incremental sales over the base year

The potential impact of PLI : The impact of PLI schemes across sectors would be multi-dimensional covering contribution to the GDP, competitiveness, value addition employment generation and resiliency in the supply chain

- **Domestic Value Addition (DVA):** Given the focus on hard investments into manufacturing facilities and assets, the scheme is expected to drive higher value

addition within India from raw material to finished product. This would be a key to enhancing the manufacturing contribution to GDP towards the vision of 25%

- **Enhancing India's Global Value Chain (GVC) participation:** India's GVC participation index at 43.1 (OECD-WTO TiVA database 2018) has a significant scope for improvement and can be enabled only with manufacturing being a very integral part of global value chains. This requires product portfolio, quality and volumes to be aligned to global requirements. The PLI with export requirements in many of them together with the DVA would assist in significantly enhancing GVC participation

- **Generating large scale employment opportunities:** The anticipated incremental manufacturing contribution to the GDP from investments made towards the PLI schemes by organizations is about $520 bn. At this scale, accounting for the interventions and impact of automation and productivity increases, the sectors under the PLI scheme are expected to nearly double their employment translating to about 10 mn direct jobs and additional indirect of around 30 mn

- **Creating global manufacturing champions :** With a "focus sector focus portfolio" approach, the PLI provides an opportunity for organizations headquartered in India to build economies of both scale and scope that would enable them be globally competitive and thus creating the platform for emerging as global champions in the medium term. The creation and expansion of value chain for the scale and scope by the anchor companies would also require upstream capacities and capabilities and thus have an impact on the micro small and medium enterprises (MSMEs)

- **Enabling integrated competitiveness:** From a manufacturing perspective, the PLI focuses on investments in technology, R&D and, plant and machinery with a view to create integrated competitiveness in the value chain of the investments that are sustainable as opposed to siloed ones. This would however require manufacturers to plan their investments with a strategic lens covering the three areas to ensure scalability and sustainability

- **Driving agility in the supply chain :** With reducing reliance on imports in key areas of the value chain (specifically in input materials), the ability of the supply chain to be resilient and agile is significantly enhanced, the impact of which was witnessed during the pandemic. Sectors like pharmaceuticals, medical devices, electronics, automotive, and steel would be key ones among others

A manufacturing contribution to GDP at over $1 tn would enable India to become a destination of choice for global manufacturing but also sustain it over the next decades. The PLI scheme would be a key enabler for realization of the vision. On their part, Indian organizations and leadership need to look beyond their traditional markets, preferences and boundary conditions to leverage the PLI schemes and enhance their competitiveness.

In conversation with Pramod Menon

Pramod Menon
Group Chief Financial Officer (CFO) and Member of the Board, RPG Enterprises Limited

1. In your view, how have Indian manufacturing companies leveraged the opportunities that emerged from the shift in the manufacturing footprint across countries, over the last 18 months? What has been the experience of the RPG Group? How have you leveraged the opportunity, and what are the roadblocks you have faced?

The pandemic has definitely put out a lot of challenges and impacted organisations in different ways, and appropriate

measures have been taken by each organisation. From a CFOs perspective, there are two or three themes that are emerging in an organisation's future capability building. First is technology enablement, which is critical for any organisation on how quickly they can adapt to the technological changes by leveraging technology. It is not just digital transformation, but across different touchpoints - how organisations are aligning all functions and making them capable. The second aspect is around the risk management framework that has increased manifold - the uncertainties in the approach to critical issues like currency risk, commodity risk, cyber risk, etc. becomes prominent. There are many risks becoming more relevant in the current context, requiring CFOs to be agile and have regular cadence in reviewing these risks. The third aspect is sustainability - which is coming to the forefront as well.

In terms of manufacturing issues, the pandemic has opened up significant opportunities, especially with the focus of the government to make India a manufacturing hub in the face of a growing protectionism agenda taking shape across the world.

The RPG Group is a diversified global conglomerate, with a presence in manufacturing, infrastructure, and technology businesses. As a group, a part of our business is capex heavy while the other is not, which provides certain flexibility in deploying capital. As a philosophy, our approach towards our business investments has been prudent by focussing on growth with profitability, while making judicious investments aligned with our strategy. The group has been cautious on leverage, thus enabling us to cushion the shocks from business cycles on cash flows, and in helping is retain our ability to access capital.

In the manufacturing segment, where we have deployed large capital expenditure for growth, the focus has been on brand-led growth, given our significant presence in the retail consumer-oriented space. The spend on brand development has been significantly higher, and this enabled our business growth to quickly ramp up and bounce back immediately, as the economy started to recover from the first wave in FY21. This led to double digit growth in FY21.

We see huge opportunities in India, and inorganic growth could provide access to capabilities for diversification and scale while continuously making investments organically in the respective business for growth and efficiencies. The pandemic has altered the landscape, requiring significant investment and upgradation on digital and technology enablement initiatives – across the value chain on one hand, while providing interesting opportunities to evaluate inorganic growth on the other.
With the incentives extended by the Government to the manufacturing sector through policy initiatives like the PLI scheme, we at RPG group are evaluating opportunities for investments by leveraging these policy initiatives.

Overall, we need to prepare for consumption-led growth in the near term on the back of a pandemic induced deceleration in economic activity, i.e. revenge growth. Besides, we need to be prepared for the challenges to growth vis-à-vis rising inflation, roll-back of quantitative easing, leading to liquidity constraints, etc. Hence, it is essential to have a robust risk management framework that addresses the relevant risks emanating from the strategic shift that businesses may see in the future.

The current scenario provides interesting opportunities for RPG Group, given its liquidity profile and sound balance sheet. We believe finding the right opportunities and building appropriate internal processes is critical for success even as we aim for significant growth.

2. **Deployment of digital technologies has an impact on the work, workplace, and workforce. Your thoughts from an RPG**

From a CFOs perspective, there are three themes that are emerging in an organisation's future capability building.

Technology enablement- how quickly organisations can adapt to the changes by leveraging technology.

Risk management framework - the uncertainties in the approach to critical issues like currency risk, commodity risk, cyber risk, etc. becoming more prominent requiring CFOs to be agile and to have a regular cadence for review

Sustainability - adoption to sustainable practices will be critical for all organisations in India, as it will become a critical element for accessing capital over time and ensuring that the quality of growth is given more importance than the quantum.

Group experience on how organisations need to approach the journey.

The RPG Group commenced its digital journey nearly 6 years ago in a structured manner, wherein the managerial workforce was mandated to acquire certain basic digital literacy. The initiatives across the group are going through a digital and innovation Centre of Excellence, which initially provided the fillip in creating awareness and success stories. The digital initiatives across the organisation are championed through a digital SPOC and it is being driven across functions. One of our factories, based out of Chakan, has adopted smart manufacturing practices whereby the business head get live updates on each of the orders at the factory shop floor. Similarly, at CEAT, the digital platform in customer service enables customers to report any performance issues on an app, which has significantly reduced the turnaround time for a customer from days to minutes.
Digital interventions to enhance business efficiency is being evaluated at different businesses, including our plantation business, wherein adoption of drone and other digital initiatives could have an impact on productivity and yield.

The CFOs are leading the initiatives on the digital transformation agenda in their respective companies. At Zensar, the CFO office has a technical position in the organogram, who are engaged in creating various customised digital solutions. This has led to successful adoption of unique propositions based on different platforms including blockchain. The involvement of a technical person in the finance organogram has enabled alignment of the process requirements and also a quicker turnaround time. The best practices and success stories are routinely shared amongst our companies to drive the digital initiatives in earnest.

We have mitigated the risks that digital transformation has on the IT security architecture by ensuring the CIOs office is engaged in this transformation process.

3. On the important agenda of sustainability – how is the group building sustainability in its operations? How do you see this evolving in India going forward?

Sustainability is an extremely relevant theme, which has been further accentuated by the current pandemic. We are already seeing that access to capital is shifting towards entities which are adopting sustainability practices, and change in this respect, has been brought about largely by financial investors. At RPG, we are striving towards making it an integral part of our business process. The group had been following some of the best practices in the areas of governance and social responsibilities and have undertaken steps to further deepen the impact, through measures on environment protection, and also at the business process level. In each of our companies, we have undertaken steps to finalise the goals for the next 5 years, along with an action plan which would require change management as also investments yielding long-term benefits. CFOs are closely involved in driving the processes in each of the companies. We believe this to be a journey requiring a long-term commitment and based on that we have devised goals for each year, in terms of process changes, capabilities, and investments for individual entities, as each of them are in different sectors with a varying maturity curve. The developments on sustainability are routinely monitored by the task force or steering committees.

As mentioned earlier, adoption to sustainable practices will be critical for all organisations in India, as it will become a critical element for accessing capital over time and ensuring that the quality of growth is given more importance than the quantum.

4. You have a very interesting initiative on inclusion that goes beyond the workplace – for e.g., the CEAT Tyre shoppes that would be owned, managed, and operated by women. How has your diversity / inclusion agenda shaped the outlook of the organisation?

Diversity and Inclusion (D&I) is a key agenda at RPG group and is championed by the leadership within all the companies. At CEAT, Anant Goenka chairs the council that

sets up the targets and initiatives on D&I and ESG. The approach to gender diversity is not just restricted to women employees. In the group, we have three entities, namely, CEAT, Zensar and KEC who have employed members of the LGBTQ+ community. Besides this, there is also a focus on people with disabilities and an earnest effort is made to ensure that they also form part of the workforce across all the companies. Ethnic diversity is another key agenda, given the diversity of our country, as we are a global company with a footprint across continents. There is a conscious effort to onboard people who bring an element of diversity to maintain the cultural balance.

D&I is high on the agenda and mindshare of the senior leadership and there is a conscious effort to build an organisation by adopting best practices and we see this as a critical element in our journey to attain sustainability related goals.

5. **You have joint ventures in the region – in Sri Lanka and in Bangladesh. What has been the recipe for success for those ventures? And, what advice would you have for companies going global?**

At RPG, our ethos and philosophy on JVs are built around trust and transparency, along with our alignment of objectives and we believe them to be a key differentiator. For the success of any JV, the most important aspect is alignment of the purpose and objectives of the JV partners in the venture. The group has a rich history of successful JVs and these are the two fundamental pillars on which we have built sound relationships. Over the years, our JVs have benefited further with contributions from JV partners in growing the businesses. Similarly, the success of our overseas footprint, including Sri Lanka, is more about cultural integration. The governance framework in terms of decision making and review processes provide the right platform to bring issues for deliberations, besides empowering the JV management to operate without interference. The endeavour is to share best practices for mutual enrichment.

In any JV, evaluation of the value system and cultural fit with the partner is a key criterion. This enables an honest deliberation and exchange of views on key business issues and helps to set up the right aspirations amongst partners. This has been another essential ingredient for a successful venture.

In going global, understanding, and appreciating cultural differences and accordingly, aligning aspirations and expectations are extremely critical. Cultural integration is a huge challenge and if you get it right, the foundation and structure of the venture becomes strong. In our own experience, surprises emanate mostly from the differences in cultural practices and approaches. This is something that we constantly strive to review and re-align.

6. **What are some of the risks including cyber and regulatory that you are seeing in your business, and how are you, as an organisation, tackling those risks?**

Risk management is a critical aspect for any successful business and its relevance has got amplified by the pandemic. The business cycles have changed significantly with major spikes and unpredictability in periods of stability, driven by continuous changes to the ecosystem led by technology, trade barriers, and behaviours. In the current environment, the pandemic-led risk shall remain primary and critical until we come out it. Building adequate resilience to safely navigate through these choppy waters, as we encounter a potential threat of another wave, is a key agenda. Herein, we are sitting both on the potential threat, as the pandemic fades and imminent opportunity of revenge growth. The current situation has mandated a complete shift in the approach as deliberation on risks have become a louder part of the agenda at review meetings. The organisation needs to be alert and vigilant to proactively engage with the various factors and variables that are at play at all levels.

The pandemic has elevated two risks primarily. One being the risk emanating from the huge liquidity infusion into the global economy, which has led to creating

In a JV scenario, evaluation of the value system and cultural fit with the partner is a key criterion. Aligning aspirations and expectations of the JV partners is extremely critical for success.

The pandemic has elevated two risks primarily:

One being the risk emanating from the huge liquidity infusion into the global economy, which has led to creating of bubbles across asset classes impacting commodity prices, currencies, interest rates.

Secondly, with the leap towards adoption of technology and digital interventions, cyber security risks have significantly increased, and we have seen increased instances of attacks globally and domestically.

of bubbles across asset classes impacting commodity prices, currencies, interest rates. Secondly, with the leap towards adoption of technology and digital interventions, cyber security risks have significantly increased, and we have seen increased instances of attacks globally and domestically. We have constantly been reviewing the business processes to mitigate the potential risks emanating from the liquidity flow, through adequate hedges to insulate the risks to P&L, balance sheet and cash flows. On the cyber security front, we have been investing and upgrading the security architecture relevant to the industry in which we operate, all while ensuring that digital interventions and initiatives are adequately evaluated from a cyber security perspective, prior to deployment.

The regulatory compliance risk is largely to do with the nature of business that a group is engaged in. At RPG, we are largely operating in sectors which do not have high regulatory controls. Across our businesses, we have adopted practices that are proactive to changes in the regulatory landscape.

7. And finally, if there is one decision in your successful career that would like to overturn today, what would that be?

I would say it's not a reversal of any decision, but I would have accelerated a decision. Expeditious adoption of technology and automation to facilitate digital transformation is one that will fall in this space. As leaders, we need to influence the change management process in our organisations through an adequate push factor from the top, through upskilling.

Regulatory update for the manufacturing industry

The current, progressive thinking Government promises a positive and beneficial regulatory environment for the manufacturing sector and has introduced various incentives and benefits that vary depending on whether the intended operations are labour and/ or capital intensive. The central government schemes under the banner of 'Atmanirbhar Bharat' focus on promoting domestic manufacturing, encouraging Indian exports, and ensuring balanced regional development. The state governments aim to provide fiscal and non-fiscal benefits to attract investments and create employment opportunities within the relevant state.

The Indian income-tax law ('IT Act') and the Indian Goods and Services Tax ('GST') law defines the concept of "manufacture"/ "manufacturing" in a similar way to essentially mean emergence of a new product, article or thing. Interestingly, while the word 'manufacture' has been defined in the IT Act, 'production' is not defined. A plethora of judicial precedents have held that the word 'production' has a wider connotation in comparison to 'manufacture' and accordingly any activity, which brings a commercially new product into existence, would constitute production.

The recently issued production linked incentives ('PLI') schemes for manufacturing, makes a reference to the definition provided under the GST law and therefore, eligibility test for PLI schemes i.e., whether a process qualifies as manufacturing or not, is similar to the test applicable under GST law.

Overview of the incentives and benefits:

Various benefits, at central as well as the state level may be sought, depending on

manufacturing, as well as the export profile of the contemplated operations and other critical aspects, such as product mix, sales mix, sector, investment period, expansion or diversification, etc. Projects with higher investment and/ or higher employment creation commitment enjoy premium status by state governments with maximum amount of benefits. Quantum of benefits can also be negotiated with state governments where the project size is of a very large scale. Factors such as female employees or SC/ST/OBC employees also play a crucial role in getting higher percentage of incentives. However, restrictions on casual labour may exist which needs to be considered as per the local state's requirements. Furthermore, a higher quantum of benefits can be negotiated when investments are made in backward zones, i.e. zones where the existing level of industrial activity is low.

Key incentives schemes

Key beneficial schemes/ incentives of the central and state governments are briefly discussed/ highlighted below:

- **State industrial policies** include fiscal benefits such as reimbursement of state-level GST by way of refund/ exemption/ loan (gross vs. net depending on the state and quantum of investment), electricity duty and water charge concession, capital subsidy, refund/ exemption of stamp duty, employment generation/ training subsidy, etc., and non-fiscal benefits such as, uninterrupted water and power supply, better rail and road connectivity, land at a concessional rate, dedicated port facilities, single window facilitation, etc.
- **Central Government** scheme under the "Manufacture and other operations in warehouse regulations" provides for **exemption of duty payable** on raw materials and capital goods procured for undertaking manufacturing and other defined operations in a custom bonded facility, if imported goods are subsequently exported. The scheme also offers **deferment of duty payable** till the time goods are cleared from the bonded facility to India mainland.
- **Export Promotion Capital Goods (EPCG) scheme** allows import of capital goods without payment of import duty. The exporter must export goods to the value of at least six times the duty saved on import of capital goods, to qualify for the scheme in the first six years from the date of authorization.
- Under the **Advance Authorization (AA) scheme,** import duties are waived with respect to the imported goods incorporated in goods intended for export. To qualify for the scheme, the importer must export goods with a value of at least 15 percent of the import duty saved under this scheme, within 12 months from the date of filing the application with the Regional Authority.
- India has negotiated **Free trade agreements (FTAs)** with various countries including members of the Association of Southeast Asian Nations (ASEAN), Japan, Singapore, and members of the South Asian Association for Regional Cooperation (SAARC). FTAs provide concessional customs duty rates for imports from such countries subject to complying with the rule of origin and value addition norms.
- **Project Imports (PI)** scheme is designed to expedite and simplify the process of determining which industrial goods fall under the various chapters of the customs tariff. Furthermore, under the scheme, favourable tariff rates are available for imported goods that are used in projects which aid in developing India's economy, e.g., industrial plants, irrigation plants, power projects, mining projects, oil and mineral exploration projects, etc.
- **Remission of Duties or Taxes on Export Products (RoDTEP) scheme** provides reimbursement of taxes, duties, and levies at the central, state, and local level in the form of transferable duty credits and electronic scrips.
- **Exemption from indirect taxes** for goods exported from India, subject to conditions.
- **Special Economic Zones (SEZs)** have been established across India to house export focussed manufacturing and service sector units. A unit located in an SEZ must comply with positive net foreign exchange earnings requirements to remain eligible for benefits under the scheme. Key concessions available under the scheme include:
  - Customs duty and GST exemption on goods imported for authorised operations.

- Option to avail upfront exemption from GST on domestic procurement of goods and services, subject to the execution of a bond or letter of undertaking by the supplier.

- **Production Linked Incentives (PLI) schemes** provide a certain percentage of incentives in the form of cash payment (typically in range of 2 percent to 15 percent) on incremental sales of manufactured goods over a batch of certain number of years (typically 5 to 6 years).

  The first batch of PLI schemes was issued in April 2020, covering mobile manufacturing, pharmaceutical and medical devices sector. Following the positive response, the Union Cabinet, in November 2020, approved introduction of PLI schemes for an additional ten key sectors, such as automobiles and auto components, telecom and networking products, textiles, food products, solar PV modules, other white goods, etc.

  A total of 13 sectors have been notified as on June 2021 for PLI Scheme incentives which will be governed by the respective ministries. The PLI Schemes closely interplay with State Incentives scheme to boost manufacturing footprint in India.

- **Corporate income tax rate** for companies engaged in manufacturing activities is **reduced to 15 percent** (one of the lowest tax rates across the globe for companies engaged in manufacturing) subject to conditions.
- **Deduction from profits is available for creation of new employment opportunities** even in case of companies opting for lower rate of tax as mentioned above. Tax deduction at 30 percent of the additional employee cost available for 3 years (including the year in which employment is provided). Additional employee means an employee: whose total emoluments are not more than INR 25,000 per month; employed for at least 150 days (for apparel/ footwear and leather industry)/ 240 days during the previous year; and participates in a recognised provident fund.

New Labour codes

As part of Labour law reforms, the Government of India has undertaken rationalisation of 29 Labour regulations and subsumed them into 4 Labour codes namely,

- **The Code on Wages, 2019** that has included 4 legislations relating to wage rate, time of payment, bonus, equal opportunity, and remuneration.
- **The Code on Social Security, 2020** that integrates nine statutes including the statutes governing Provident Fund, ESIC and Gratuity.
- **Code on Industrial Relations** which consolidates three enactments relating to industrial relations and trade unions.
- **Code on Occupational Safety, Health and Working Conditions that** amalgamates 13 labour laws relating to safety and health standards.

While all the four codes have received a presidential assent, they are yet to be notified by the government. The draft rules for each code have also been released.

The Code on Wages applies to all establishments, employees and employers as defined, unless specifically exempt in code. The most important change brought in by the Labour code is the standard definition of ‘wages’, which varied from legislation to legislation in the earlier statutes. Code on social security coverage broadened to include gig/ platform workers, fixed term employees, and those in the unorganised sectors, with the organised sector. The Labour code cast various obligations on the employer, with structured timelines, such as for payment of wages and for full and final settlement to employees. Also, penalties and prosecution are provided for or have been enhanced.

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