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# NEWSLETTER

## March 2021

# From the Editor's Desk

Dear Readers,

We hope 2021 has been good for you so far. We, at BizProWorld, spent the time working towards improving the platform for you. We have curated some interesting contents and also added new projects to the platform.

The current edition of our newsletter focuses on the Indian SME manufacturing sector and covers some pertinent topics related to the growth of the sector. A lot of these issues are covered in this special edition by way of discussion with an eminent business leader – Mr Bhalchandra Sinh RaoRane. Mr RaoRane is Chairman of the Federation of Indian Industries (FII-TMA), Mumbai. He is also Chairman and MD of specialty-chemical and pharma company, Urmila Chemophma Pvt Ltd, with offices in Mumbai and London.

Our next edition will take the above manufacturing theme forward. We hope that you find these discussions and articles informative.

Best Regards,

**Sanjiv Ray**

Managing Director & Co-Founder,  
BizProWorld

Interview with

# MR BHALCHANDRASINH RAORANE

The manufacturing sector has been a focus area of successive Indian governments, still, India has been punching far below its weight in this crucial sector. Here is an insightful conversation of Mr Sanjiv Ray, Managing Director, BizProWorld with Mr Bhalchandrasinh RaoRane, Chairman, Federation of Indian Industries-TMA, on the challenges that the sector faces.



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*Mr RaoRane is the Chairman of Federation of Industries of India FII-TMA, Euro India Business Council-EIBC (Registered in the Netherlands & Germany) and the Chairman & Managing Director of UCP India-UCP Europe.*

*Mr RaoRane has been a very active member of several joint government and industry initiatives including 'Make in India'. He has also been an active member & speaker in many international forums, such as European World Economic Summit among others.*

*He has 11 years of work experience before devoting fully to his own company. During the initial 11 years of his illustrious career, he worked across levels in manufacturing organisations and rose to the Chief Executive and Board levels in multinational companies. Federation of Industries of India-TMA (FII) is a 56 years old Industries association having members from small, medium and large enterprises like Bayer, Raymonds, Sanofi, Clariant, United Phosphorus Ltd etc.*

Here is an excerpt of discussion with Mr RaoRane

**Mr. Sanjiv Ray (SR):** Pandemic devastated many industries and companies while many have managed to strengthen themselves. How have the members of the Federations coped up?

**Mr. Bhalchandrasinh RaoRane (BRR):** As far as Federation members are concerned, I am happy to tell you that we have a very wide segment of members from different sectors and different scales. We have very large companies like UPL and Bayer and at the same time we have very small companies, and also individuals as associate members. So, the initial feeling of COVID was a shock to everyone because of the sudden lockdown but slowly and steadily people started re-adjusting. There's a little personal angle to this, my son being in the United Nations, a couple of years back his boss was Dr David Nabarro. Dr Nabarro happens to be the special envoy for WHO – he is a very erudite gentleman you must have seen him talking. I was getting a lot of information in advance about how things are going to develop.

So, when we realized that the situation was not going to go away in 15 days or three weeks or what several lockdown periods were being discussed. We started taking steps talking to our Federation members. They were totally in the dark as to what to do because of the sudden lockdown. We coordinated with the government nodal bodies to establish protocols and precautions for opening and running the factories. Coming from the pharma industry ourselves, we gave many suggestions to the government bodies (central and state ministries) on establishing the protocols and feel happy to say that a lot of our suggestions were accepted. We also worked with our members to convince them to start their factories and operations. A lot of coordination required with MIDC for starting these factories. But, most of our members started their plants quite early through our concerted efforts. But, there were lots of problems related to manpower and raw-materials due to lockdowns. Overall, we have coped-up quite well but there are still a lot of challenges even though many sectors are quite upbeat now. There were issues of lay-offs. There was a government directive against lay-offs and salary cuts. But, we all know what happened to that in the supreme court. Many companies laid-off employees in large numbers, some opportunistically. But, I am happy to say that our members, most of them small and established SMEs, have not done any lay-offs. They understand the value that experienced workmen and staff bring to the business.

**SR:** Yes, the situation has turned quite upbeat now, may be because of the pent-up demands or our inherent industrial strengths. But, from last year's overall situation, how do you see from the perspectives of the Indian manufacturing industry in general?

**BRR:** The real problem was supply chain management. I may start my factory but whether I will get my raw material or not was a big issue. So, on that front also, we started chasing our ministries very strongly. My own manufacturing is virtually 100% dependent on imports. So, I knew if the imports are affected then the entire chain will be broken. Even suppliers' regions would be having lockdowns, vessel frequency had come down drastically. On top of this, if vessels bypassed our ports due to operational problems, that would have created major problems. Ports' situation was also badly affected due to lockdowns. But the government recognized the issue and acted very swiftly. Ports like JNPT and others worked despite bottlenecks and largely met the demand. Besides, if material and import doesn't come from China or other countries, but mainly China, then it will be a big problem. Let me explain, which are the industries that are heavily dependent on China – mainly the Pharma Industry. Its dependency is to the extent of 90% of the raw materials, intermediates and APIs. Even Paracetamol molecules come from China. That is a kind of stupid dependencies that we have created. We used to have a very strong manufacturing base. But now we are doing “N +1” manufacturing. It's only the last stage plus one step and then we claim that we are also a big manufacturer. This has to change. If Chinese companies could do this then why not us. However, it won't happen overnight. We have been pursuing our state ministries for more than ten years now for a pharma park. But, recently they have announced a pharma park as per our proposal. 5,000 acres of land is earmarked for pharma park in the Raigad district. Companies can start having their production there. It will help create an infrastructure where a related supply chain can develop. Production-based incentives from the central government may not be very attractive due to the minimum investment required, like Rs 20 cr or 50 cr etc. Most companies would just not take it up. Rather, you give them flexibility, you create infrastructure and then the company will start having their production but it cannot be forced that you should make this product only or that product only. Instead, you create an infrastructure that is your job. We don't want to go back to the license Raj again, where everything was directed by the Ministries. We have seen its negative impact. As far as industry is concerned the thought process of people substantially changed. It is a total rejection of earlier thought processes and controlled environments.

Some of the sectors are doing very well — driven by the current circumstances. Such as the auto industry is booming, it's kind of a beautiful day for them. It's driven by the need of having one's own conveyance as people have realized that you can't overtly depend on the public services. It can stop anytime, more so given the uncertainties due to COVID.

Now the question is, will the boom, like the auto sector now, last? Can companies invest and increase big capacities. Many manufacturers, for example in the auto sectors itself, feel that it's not sustainable. So, why should we increase our capacity because after the current spurt we will come back to the same position? We put in a large fund, enhance capacities, but then we keep it idle as sales will taper. So, everyone is going careful. There is very little assurance of return on investment. Even our customers, the larger companies, are playing safe they all want to wait and watch.

**SR:** So, what do you think is the way out of this?

**BRR:** Recovery has to be far more broad-based and deeper. Even avenues for demand must spread far beyond the traditional bases like cities. I see two important areas to work on — one, the rural and semi-rural economies, and exports. It can give a strong boost to sustained demand growth. Government has a lot of work there.

**SR:** Every adversity also brings in some opportunities. What opportunities do you see for your members and industries in general?

**BRR:** Now as far as opportunities concerned, several new opportunities are going to be thrown up and people are already coming out with new ideas and products. Here is the kind of product that our members have come out. This is chlorine dioxide – simple things like you dissolve a powder in water and keep it in your room. It will disinfect your room for 30 days, in just Rs 400 bucks. Another one, one company has come out with a pencil-like thing that can be kept in your shirt pocket. It will disinfect the area surrounding you. These are kind of new normal.

There were lots of mess in Diwali deliveries this time. But overall the Logistic industry will see a big boom as there is a big gap in the market more so due to the changed conditions. Take another example of our members from the IT industry. Some of them had 10 floors of IT activity and were spending millions of rupees every month on employees' transportation, office expenses, canteen etc. Now, almost everyone in their companies is working from home. Imagine the kind of savings they are accruing now. So far, they have kept those facilities idle, but have equipped their staff with the sophisticated computer, workstation, connectivity etc. Besides, working from home is 24x7, maybe 12 hours every day. But, employees are not complaining because they are spending more time with family and work instead of travelling. So, it's kind of a win-win. Opportunities are arising from the changed circumstances themselves. But it's always important whether you exploit it or use it positively. Because exploiting will be wrong.

There are other challenges. For example, we have long-term visas for most of our markets. We used to pack-up and visit clients whenever issues or needs arose. There were free movements. Now, that's gone! Thus, we have to learn to solve issues or problems remotely which is so difficult. We need to be, therefore right the first time, to avoid any spec related or quality or delivery issues completely. This requires a different way of thinking and working for even the established companies. Business processes required to be re-engineered to meet these kinds of new normal. We are trying to help our member by roping in industry veterans, someone who started with a small set-up in a garage and now has multinational operations having tens of plants. We are creating space for our members to learn from each other and experts like you.

**SR: It's also true that many companies are struggling due to pandemic disruptions, and many are on the verge of collapse/ or already closed. How can we help revive these companies (maybe beyond financing)?**

There is a kind of despondency currently. It has to be handled at every level. Entrepreneurs are of two types, one who will go for manufacturing business and others who opt for services. For manufacturing particularly, significant resources are required either through personal wealth, funding from banks, institutions etc. Many people succeed in manufacturing, but some disappear. But, there is a big chunk, about 85 out of 100, who survive not by making huge money but they managed to survive. Why? because they are hard-working, smart, daring, that is why they decided to become entrepreneurs. So come what may, they manage to make some money and survive. This makes up for the biggest group leading the companies or industries. Now, they have started re-thinking - is it really worth it for me to be in business? What happens if another lockdown or some such disruption occurs. Probably they will be nowhere. So, they feel enough is enough. Let me pack off, all the efforts are not worth it. They have also created enough wealth to survive for the rest of their lives. It's not that business has suddenly disappeared. It's the uncertainty and all the trouble of doing business. Many of such owners or entrepreneurs are in the age group of the late 50s or 60s and their motivation has been coming down due to so many uncertainties.

This critical group of owners/ entrepreneurs needs to be convinced to continue. It's not for their own sake only but the employees and other stakeholders. If these companies close, where will the employees go? They will lose their livelihood. Steps should be taken to address these fundamental motivational issues very urgently.

**SR:**The government has also been quite aggressive in trying to reduce the industry pains, mainly for the MSME sectors. How much impact of these initiatives do you see on the ground among the Federation members?

**BRR:** Some countries, such as the USA, have been very supportive of small businesses. There was direct benefits transfer of costs, such as employee costs. So, companies got full salary amounts reimbursed based on the number of people employed then. So, for example, \$50,000 was the employees' cost. It got transferred directly into their accounts based on confirmation of the employees list and salary. This also explains some of the reasons why the ex-President was so popular with the business community in the USA. I talked with several business owners there and all of them were quite happy about it. In India, we also got support but were given a loan with a cost. Though amounts were also small but useful. Similarly, weaker sections were also supported by food grains etc. But, expectations were more of direct benefits transfers and more direct supports. Loan to a business is always a hanging sword, a cost.

**SR:** Federation has been very active during the pandemic in many areas, such as supporting migrant laborers, poor households as well as member companies and industries. Please tell us about some of the highlights and their positive impacts.

**BRR:** We discussed pharma park, coordination with central and state ministries, nodal bodies, MIDC and other bodies for ensuring smooth operations for the members. The impact has been very positive. Probably our members were some of the firsts to start the factories. We have been very active in other social services as well. We started feeding migrant labourers from day one of the lockdowns. Some of our members were kind enough to support us monetarily. We created a large kitchen to serve hundreds of families. Police and administration helped us in distributing the food to needy families. Recently, we worked very closely with various export promotion councils, such as CHEMEXCIL, PHARMEXCIL and others including FIEU (Federation of Indian Export Organisations) which is the apex body of these councils. We are interacting directly with the FIEU to support members for market discovery and planning. We are having regular seminars with them. We have given them very clear-cut suggestions and proposals. For example, if you go to any international industrial exhibitions, you will find scores of Chinese companies in hundreds of small and large cubicles. Their expenses are sponsored by the Chinese government. Even though we had some good schemes in the past, one was called MDA (Marketing development assistance). But, it wasn't effective. Reimbursement of expenses used to take 4-5 years.

I have also got the money through these schemes, but only after waiting for 4–5 years. So, they were quite ineffective. As often, there were also exploitations of the scheme. We have given a clear proposal to revive similar marketing support programs with a transparent process using the digital medium. For example, having a clear definition of exhibition costs, stay and travel tickets, etc. The council and other bodies have taken our proposal very positively. Let's hope that it's accepted and implemented soon.

**SR:** What is your reading in terms of how well your members or Indian companies are equipped in leveraging these opportunities? And, how can Federation and BizProWorld's industry expertise help members to better leverage these emerging opportunities?

**BRR:** Regarding our members, we are going to have a very regular dialogue with our members and industry people. Opportunities must be exploited. So, unless and until it is forcefully told to people that you cannot be reticent or wait for things to improve. This is not going to happen. Many time, owners are shy and don't come on their own to talk about the problems. We have to step in there. Some priming is required at different stages, for example, by us to our members, government to industries in general. It may be of the business process related support, or market or product-related supports, or better utilization of assets by developing newer product versions from the same infrastructure. We can think and support in many ways. For business growth, both innovation and technology mindsets are required. It's difficult to imagine an SME business owner having both these qualities. Typically, they are technically very sound and through operations people, or sometimes innovators, but rarely both. Institutions like us, our Federation, can step-in to fill in these gaps by creating a talent pool and infrastructure for support. Also, the COVID situation is still not over, it can come back anytime like in Europe, the USA or the current spikes we are again seeing in India.

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