

Newsletter

Editor's Note

Dear Reader,

India is a big market with great growth potential. But, somehow, it's not reflected in the manufacturing sector. Due to various reasons – including lopsided trade, industrial, land, or labor policies – India has become a trader's paradise with growing imports of cheap products from China or similar sources. As such there is nothing wrong with importing cheaper products but the problem lies with the fact that prevailing trade practices have created few incentives for the development of local manufacturing, which has delivered a debilitating dependence on foreign sources. Chemicals, pharmaceuticals, electronics, and defense sectors offer glaring examples of such crippling – and strategically dangerous – dependence on imports.

Atma Nirbhar Bharat – self-Reliant India – aims to correct the above anomalies of our industrial development. It offers a path for local manufacturing to leapfrog to global competitiveness by leveraging the local market capacities. It's not very different than what China, Japan, or South Korea did at the start of their industrial growth. However, global conditions and governance structures in India today are vastly different. Its success requires smart governmental interventions and maneuvering, and above all, energetic participation by the domestic Industries.

Reasons for failure of manufacturing growth in India are analyzed ad nauseam. But, today's inabilities shouldn't be allowed to become permanent disabilities for the nation. Thus, difficulties must be overcome, skills must be upgraded, technology must be innovated and the battle of upgrading Indian manufacturing/industries must be won. In essence, this is the spirit of 'Atma Nirbhar Bharat (self-Reliant India)' program. It offers great opportunities for the local industries.

In this edition of our newsletter, we will delve deeper into different perspectives of Atmanirbhar Bharat – first, macro-economic views of the program and, second, the best approach available for the domestic companies to gain advantage from the emerging opportunities.

I hope that these articles add value to your perspective and plans. As always, I look forward to your comments and queries. I can be reached at connect@bizproworld.com.

Best regards,

Sanjiv Ray
MD and Co-Founder
BizProWorld

Will Atma Nirbhar Bharat Program Succeed?

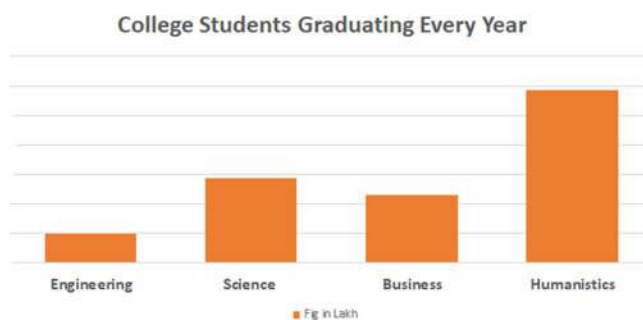
Currently, the global supply chain is hugely imbalanced in favor of a few countries. Highly controlled economies, such as China and Vietnam, have smartly maneuvered market economies to corner most of the world's manufacturing supply chain, thereby deriving undue advantage and leverage over other economies. COVID disruptions have brought these imbalances and dependencies to the fore. Thus, most countries are trying to rebalance their supply chain by bringing part of the manufacturing back to their own countries or by diversifying supply sources to multiple regions across the world. Atma Nirbhar Bharat has similar goals for India besides creating an enabling environment to grow the economy to USD 5 trillion.

So, what are the chances of success of this new initiative?
Following analysis tries to find an answer

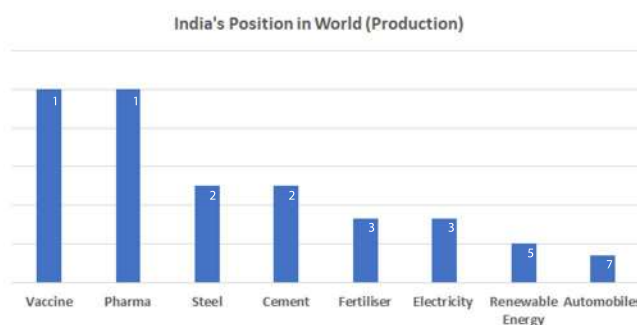
Strengths supporting the 'Self-Reliance India' program:

India has the unique advantage of a large growing market and favorable demographics. But the following often overlooked inherent Indian strengths are equally important:

1. Vast 'Skillable' talent – India is blessed with a large pool of educated and trainable people. Although it's said that half of the college graduates lack employable skills (ref. India Skill Report 2019), they are, without any doubt, educated enough to be trained for numerous skills. Besides, India also boasts of a large pool of talented and experienced professionals within the country.



2. Proven strengths – India has achieved significant successes in different industrial sectors besides IT and agriculture. It improved by 68 and 10 positions respectively in the global ranking of 'ease of doing business' and 'logistics Performance Index' during the last 5-6 years demonstrating a capacity to perform when right enabling conditions are put in place.



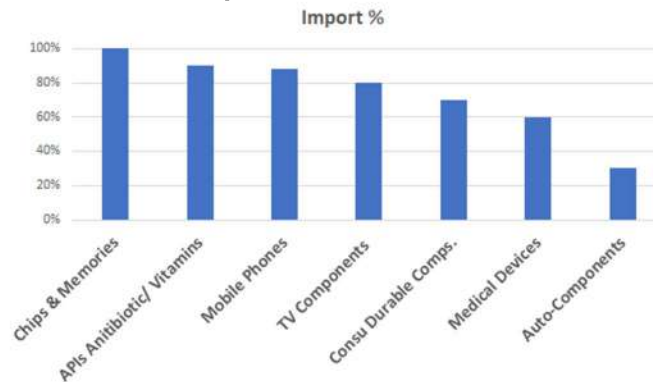
3. Indigenous Technological Prowess – Indian scientific community has proven their grip on difficult and hard to develop technologies as shown below. India has one of the largest population of engineers and IT professionals in the world.

2019	Launch of Chandrayan-2
2018	Induction of Tejas (LCA) squadron
2017	104-Satellites Launch into Space
2014	Cryogenic Engine Deployment (GSLV-D5)
2014	Launch of Mangalyan

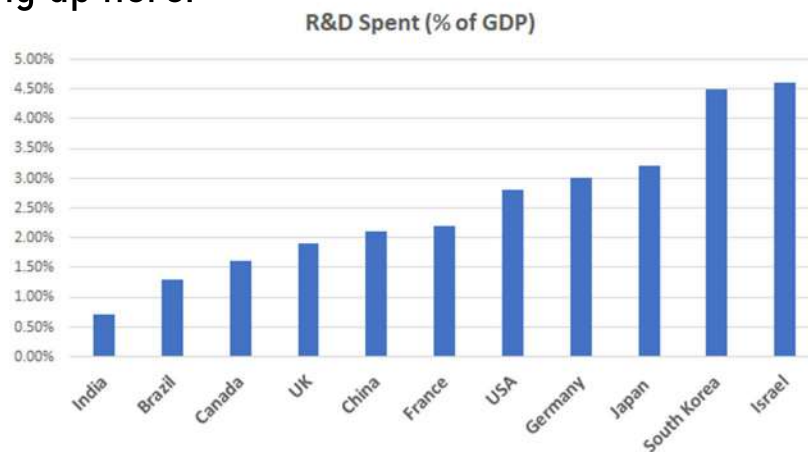
2009	Ballistic Missile Submarine – INR Arihant
2008	Launch of Chandrayan-I
1998	Fission, Fusion & Nano-Nuclear Tests
1991	Indigenous Super computer
1975	First Indigenous Satellite- Aryabhata

Weaknesses that can derail the program:

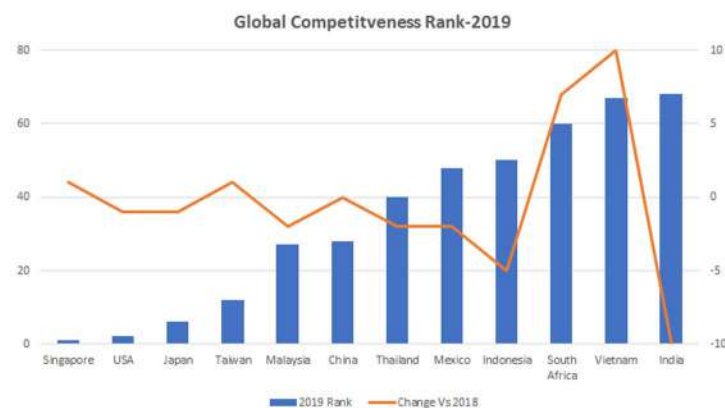
1. **Critical Import dependence** – India's dependence on imports, that too from China, is quite debilitating as seen in the IT hardware sectors. This is a huge hurdle with no easy solutions or quick turnaround without short-term costs.



2. **Low R&D spent by government and private sectors** – India lags in innovation as evident from a lack of domestic production capacities in various high technology products. Both the government, as well as the private sector, have to do a lot of catching up here.

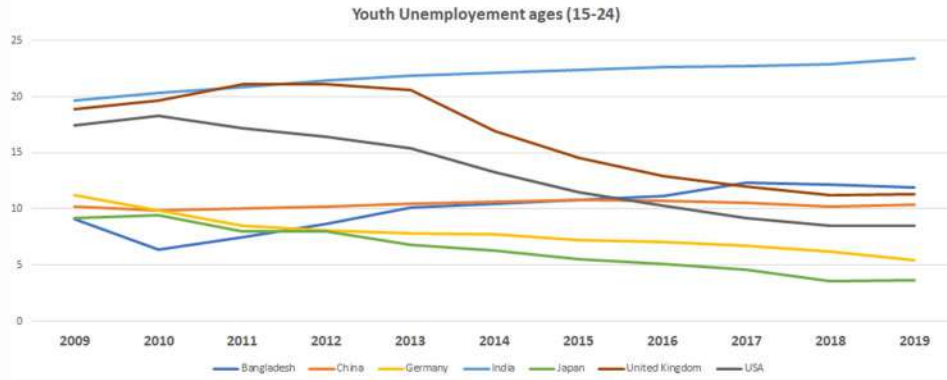


3. **Global competitiveness** – Though India has made tremendous strides in infrastructure and ease of doing business, it still ranks 68 in global competitiveness – in fact it dropped 10 ranks since 2018. In contrast, similarly positioned countries such as Vietnam and South Africa are fast improving their positions (by 10 & 6 ranks respectively since 2018). Competition to attract global manufacturing is going to be tough and India can't afford any slackening of the momentum.

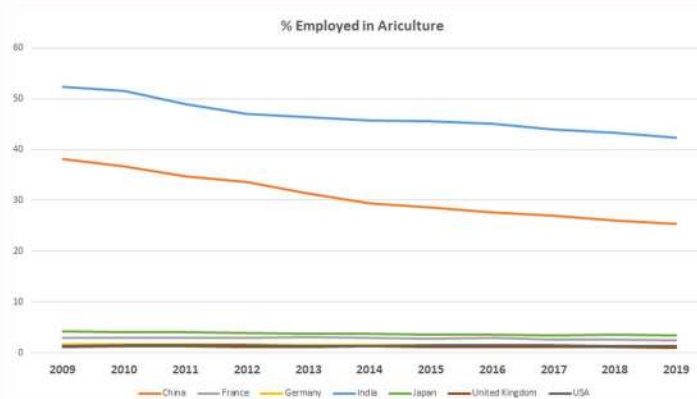


Opportunities arising from the program:

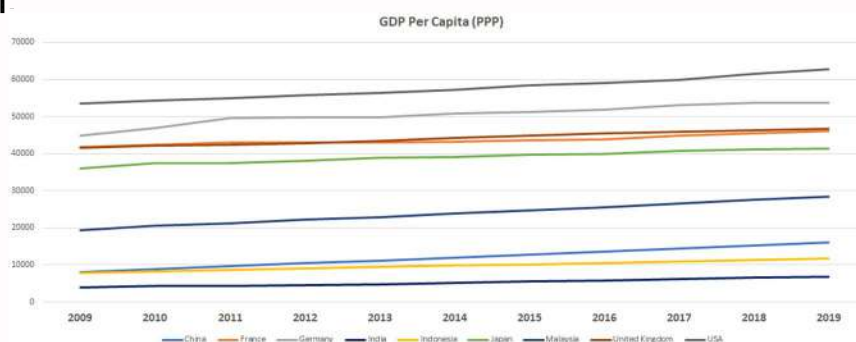
1. **Employment generation** – Roughly one-fourth of Indian youth, of age 15-24 years, are unemployed. They are not studying, training, or working. Make-In-India or Atma Nirbhar Bharat can be a great enabler to productively employ our young population.



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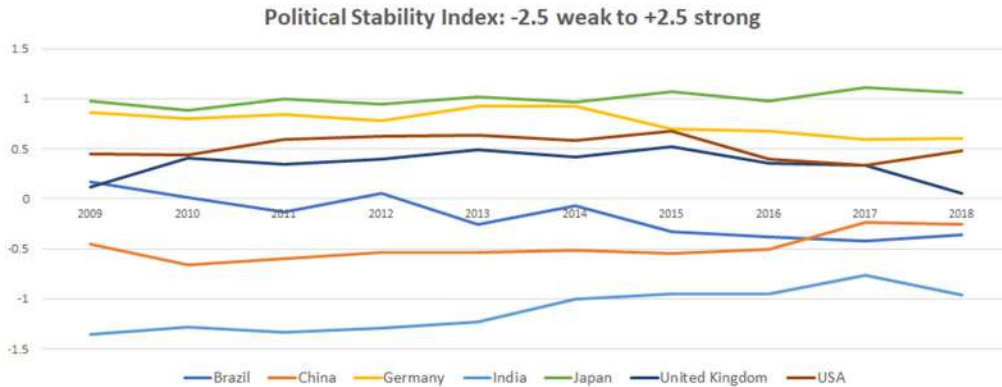


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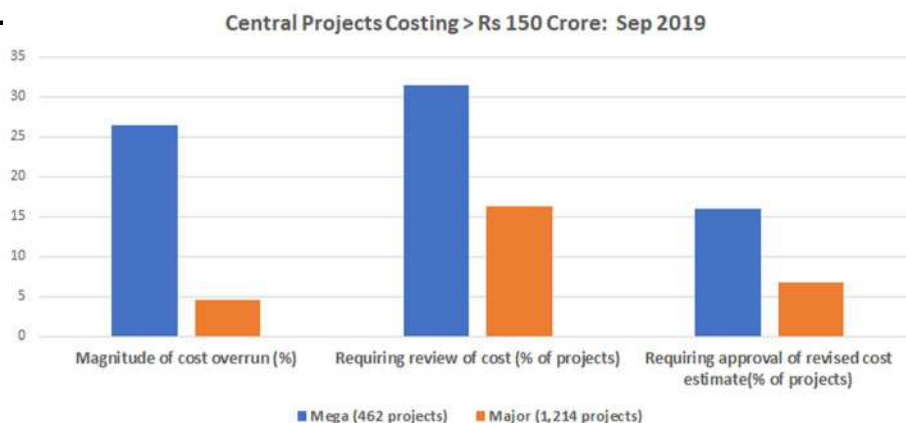


Threats to the success of the programs:

1. Political & Social instability – This is probably the biggest threat to derailing any progress in any area including the subject programs. In many ways, India is on a cross-road today – old practices are getting replaced by a new outlook but not always without frictions. Though a large scale disruption due to these reasons is unlikely, even creating a notion of such possibilities can create huge uncertainties derailing investments.



2. Execution challenges – Delays in large projects are pandemic in our country, as seen in the following chart of the central government projects, notwithstanding the strong execution credentials of the current government. Hurdles to large projects or transformative initiatives in India can come from many sides – land acquisition coupled with strident social activism, regulatory delays, decision reversals after change of government, opportunistic or populist legislation, bureaucratic hurdles, etc. We can hope the emerging opportunities create strong incentives for politico-social consensus in at least the key areas. Government of the day must take lead to generate this consensus.



3. Prolonged Global Slowdown – Post-COVID recovery remains uncertain largely depending on when the pandemic comes under control. Headwinds of global depression can make economic recovery and growth so much more difficult for India – as for any other country.

Conclusion

Thus, there are strong incentives for the success of Atma Nirbhar Bharat. It's also generating strong interest among people and the potential participants. For sure, it's a well thought out initiative combining short term reliefs as well as sectoral reforms. Combined with the 'Make in India' program, it has the potential to transform the Indian economy as dreamt. Without any doubt, implementation will be the key, and the government's biggest role will be creating an enabling environment to start realizing positive movements on the ground.

Also, given the situation in the world today, re-balancing of the global supply chain is inevitable. How much of that comes to India and how domestic companies benefit will depend on how well we gear-up for the challenge.

What should be a business's approach?

COVID related disruptions are the main preoccupation of most of the organizations currently. Indeed, the last few months have cost a lot - recouping these losses in the near term will be a tall order. However, as the lockdowns are relaxed progressively, market demands are coming back. Reports suggest that some sectors in the country may have already reached 70-80% of the pre-COVID level of demands. In any case, normalizing businesses will remain a key task for many months now.

However, the current macroeconomic forces and our government's response to the same signal a long-term re-adjustment to the global supply chain as outlined in the above articles. For example, just by putting some valid, WTO compatible, restrictions on the Chinese imports will open-up vast domestic markets, so far dominated by the Chinese products, for the local manufacturers. However, these opportunities don't stay open for long, as we no longer live in an insulated world. If Indian companies don't fill the gaps other external entities will move in and take the places vacated by the Chinese products. But, whoever takes these markets gets a foothold in a large and growing part of the global demand structure, gaining scales for greater play beyond the Indian shores. The defense sector is a similar opportunity for domestic companies.

Given the above, I would suggest the following approach for the local manufacturers and SMEs:

1. Product and market segments to enter – Should the company expand the existing product-lines or geography, or enter into an altogether different market space? This is an important choice between exploiting the existing capabilities or acquiring new ones. The government of India is also providing several attractive sops to different sectors trying to wean away from excessive dependence on imports. However, the first step in making choices is to professionally evaluate all the available options. There are hundreds of government schemes which can be best analyzed only by informed professionals who are trained and routinely scan through new schemes and statutory requirements. Entrepreneurs and companies must leverage such professionals to get quality information in the most efficient manner to arrive at the right decision.

2. Market reach strategy – Whether it's an expansion of the existing capacities or creating capacities for new product lines, market reach capabilities play the most pivotal role in the long term survival and growth of the business. But, these are also difficult competencies to develop in the short run. Many SMEs particularly suffer from such marketing handicaps. Nevertheless, a robust 'go-to-market' strategy and its right execution are central to the success of any growth plan. It pays many times over to get this right even when it requires hiring external industry experts.

3. Technology selection – In most cases, a number of technological options are available for production systems, which in turn define the scale, quality, and cost of operations. Similarly, multiple IT solutions for enterprise, supply chain, or CRM are also available in the market. However, different tech-options mean different levels of investment and payback periods. Thus, proper feasibility analysis in terms of investment & returns for the potential technology options is the crucial blueprint necessary at the decision stage itself.

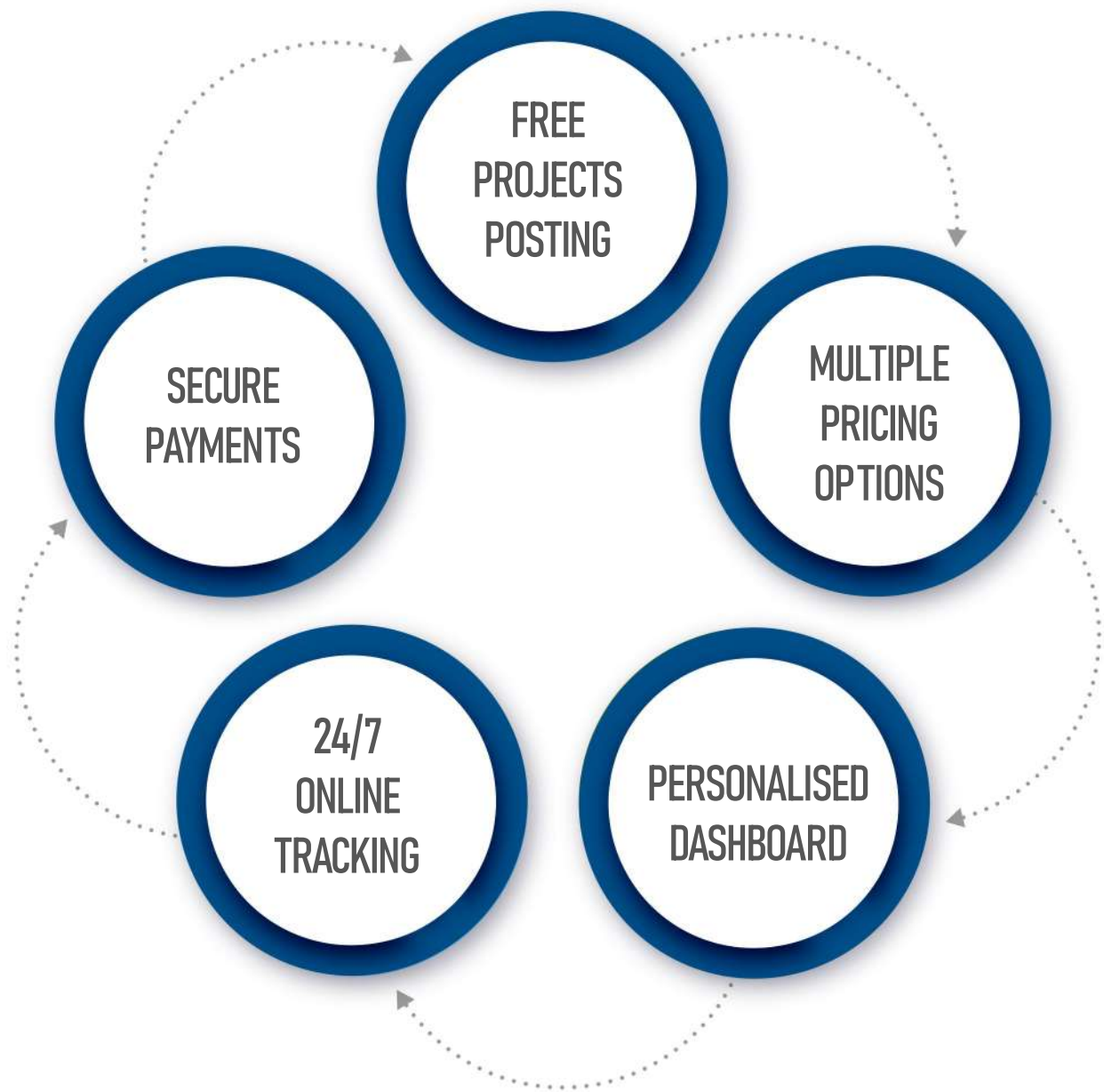
4. Skill development – Workforce skill requires continuous up-gradation to keep abreast of the changing market and competition. While classroom type focused training helps, the best examples of skill upgradations are seen when day-to-day operations are seamlessly integrated with people-development objectives. Proven practices such as lean six sigma or total quality systems have repeatedly demonstrated outstanding and continuous improvements in cost, quality, and safety parameters. Once again, it requires long term management commitment. Thus, skill development plans must not only be built into the budgets but should also be initiated within the existing operations because they typically have a long learning curve.

5. Investment and funding – Execution of expansion plans will require funding, which can be sourced through internal accruals, debt or equity investments, government supports & subsidies, or any combination of these options. Different funding options would have different risks and cost profiles. Besides, the strategic compatibility of the funding partners is also an important deciding factor. Thus, fund or capital planning is another crucial piece of the growth strategy and must be integrated with the feasibility analysis and go-to-market plans. Thus, a good funding advisor can make a huge impact on the success of the project by bringing the best fit capital with the least cost and risk profiles.

In summary, I would recommend that entrepreneurs and management must take cognizance of the emerging opportunities, and strategically analyze the best ways to leverage the same. Similarly, there are various supportive government schemes linked to 'Atma Nirbhar Bharat' or 'Make in India' programs. The key to success is choosing the right growth path backed up by informed choices and then following it up with planned and efficient execution.

Our experts at BizProWorld can assist at every stage of growth planning and execution. We welcome your inputs and queries. Connect with us at connect@bizproworld.com to start a conversation.

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