

## CHAPTER 2

### SMALL AND MEDIUM ENTERPRISES (SMEs) IN INDIA

#### 2.1 SMEs IN INDIA

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small-scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate.

SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; non-concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. It was also coupled with the policy of de-concentration of industrial activities in few geographical centers.

It can be observed that by and large, SMEs in India met the expectations of the Government in this respect. SMEs developed in a manner, which made it possible for them to achieve the following objectives:

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution
- Contribution towards defense production
- Technology – oriented industries
- Competitiveness in domestic and export markets

At the same time one has to understand the limitations of SMEs, which are:

- Low Capital base
- Concentration of functions in one / two persons
- Inadequate exposure to international environment
- Inability to face impact of WTO regime
- Inadequate contribution towards R & D
- Lack of professionalism

In spite of these limitations, the SMEs have made significant contribution towards technological development and exports.

SMEs have been established in almost all-major sectors in the Indian industry such as:

- Food Processing
- Agricultural Inputs
- Chemicals & Pharmaceuticals
- Engineering; Electricals; Electronics
- Electro-medical equipment
- Textiles and Garments
- Leather and leather goods
- Meat products
- Bio-engineering
- Sports goods
- Plastics products
- Computer Software, etc.

As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs have been passing through a transitional period. With slowing down of economy in India and abroad, particularly USA and European Union and enhanced competition from China and a few low cost centers of production from abroad many units have been facing a tough time.

Those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves shall withstand the present challenges and come out with shining colours to make their own contribution to the Indian economy.

## 2.2 SMEs In Maharashtra

Since its inception in May 1960, (and even earlier as a part of 'Bombay State') Maharashtra has been in the forefront of industrialization. The state has always followed progressive industrial policies and industry – friendly measures.

Through a network of District Industries Centre (DICs), it offers maximum guidance and assistance to SMEs. Many SMEs promoted by local entrepreneurs as also by NRIs and foreigners have come up in Maharashtra covering a broad spectrum of industrial activity.

The quality of products of SMEs from Maharashtra is high. Some of them have acquired technology from abroad. Adequate budget is provided for R & D operations. Many units are promoted by techno-entrepreneurs.

In view of the objective of the study, it was considered necessary to undertake a survey of SMEs from major parts of Maharashtra covering following sectors: Engineering; Electricals; Food Processing; Chemicals and Pharmaceuticals.

The field survey consisted of visits to industries in the following cities / regions:

<b>Western Maharashtra</b>	<b>Konkan Region</b>	<b>Marathwada</b>	<b>Vidharbha</b>	<b>Greater Mumbai</b>
Pune	Ratnagiri	Aurangabad	Nagpur	Mumbai
Kolhapur	Sawantwadi	Nanded	Amaravati	Thane
Satara	Kudal	Latur		Belapur
Nasik		Beed		
Ahmednagar				

A total of 40 units in various sectors were contacted and finally 23 units were short-listed for inclusion in the study report.

While making a final choice of the units from target sectors, following factors were considered.

1. Set up of the unit and management
2. Technology status and product profile
3. Turnover & exports
4. Scientific manpower
5. Technology / Process / Product on offer

## **2.3 Review of Industrial sectors considered for SMEs in Maharashtra**

The industries in Chemical, Engineering, Electrical, Food Processing and Pharmaceutical sector were contacted during the field survey. A broad outline of these industrial sectors and the list of industries, which were considered for detailed study, are presented in the following sections.

### **A. ELECTRICAL INDUSTRY**

The Indian Electrical Industry has a history of more than 100 years advancing through technical collaborations, joint ventures and indigenous research and development. Today, the industry has a capacity of manufacturing most of the equipment. The industry largely depends on the power programme, industrial requirements, urban and rural demand.

Maharashtra enjoys a competitive advantage in electrical sector viz. electrical home appliances, electrical motors, transformers, industrial equipment, switch-gears, circuit breakers, pollution control equipment, Power Capacitors, Lighting fixtures and lamps, etc.

In Maharashtra, the electrical industry will continue to remain a large and crucial industry segment catering to vital needs of industry & household (According to industry review of Indian Electrical Equipment Manufacturers Association [IEEMA]).

Maharashtra and Gujarat will continue to dominate this industry with more than half the nation's output and value addition. The Maharashtra Government has taken the right steps by introducing stringent pollution control laws. The total industries in this sector were scrutinized based on the available data and the following industries were selected for further detailed study & visits:

1. Filter-On Pvt. Ltd., Pune
2. Seva Engineering Pvt. Ltd., Pune
3. Mahati Electrics, Pune

### **B. ENGINEERING INDUSTRY**

The engineering industry has been titled the 'engines of growth'. The tremendous impact and influence it has on industrialization and consequently the economy can be clearly seen from the economic scenario the world over. It has catapulted many nations like Japan, Germany, USA, UK, etc into front-line industrial nations within a very short time. India too has found this industry very responsive and eager to take up any stimulus to growth. Importance of engineering industry in India can be gauged from the fact that it employs over 3 million people and accounts for nearly one-third each of productive capital, value added and output in the organized sector that contributes substantially to both the production and exports of engineering goods.

## **ENGINEERING INDUSTRY IN MAHARASHTRA**

Maharashtra occupies an important place in both production as well as exports of engineering goods from the country. Engineering industry in the state is highly diversified and produces a large range of parts to industrial machinery to industrial castings and forging.

The state has a fairly large number of firms in the organized sector possessing world class manufacturing capabilities and cost structures, besides a vast number of small and medium engineering firms.

The industry, which was initially concentrated in the Mumbai-Pune belt, has spread all over, the State, the major production centers being Nagpur, Aurangabad, Nasik, and Kolhapur.

The major engineering items of production and exports in Maharashtra are textile mill machinery, machinery for sugar, cement, and chemical plants, food processing machinery, construction machinery, tractors for agriculture purposes, electric power machinery, transmission line towers and accessories, fabricated steel like freight containers, automobiles, steel forging, steel castings, bright steel bars, stainless steel product, auto parts, cutting tools and files, internal combustion (IC) engines and compressors, machine tools, mechanical pumps and ship and ship buildings.

Total exports of engineering industry in Maharashtra have been estimated at US\$ 900 million during 1996-97. This accounts for over 21 per cent of total export of engineering products in the same year.

However, the products which have high potential of exports from Maharashtra include industrial castings forging, complete vehicles including two/three wheelers automobile parts, machine tools, industrial machinery, steel tubes, diesel engines, pumps, valves, compressors, seamless tubes and switch gears. These products have been identified considering current and future production technology scenario and exports.

The major competing countries for most of the engineering products exported from the state are Japan, South Korea, Taiwan and China besides West European and North American countries.

In overall terms, the export outlook for engineering products is bright. The shift in favour of value added items is getting pronounced from the fact that export growth of these items is high against negative growth in respect of prime iron and steel.

Maharashtra and Gujarat will continue to dominate this industry with more than half the nation's output and value addition. The Maharashtra Government has taken the right steps by introducing stringent pollution control laws. The total industries in this sector were scrutinized based on the available data and the following industries were selected for further detailed study & visits:

1. SBEM Pvt. Ltd. Pune
2. Atul Electro Formers Pvt. Ltd., Pune
3. Hylotransmissions Pvt. Ltd., Pune
4. Kam-Avida Enviro Engineers Pvt. Ltd., Pune
5. Legend Communications Pvt. Ltd., Pune
6. Mahavir Group of Industries, Pune

## C. FOOD PROCESSING INDUSTRY

The Food Processing Industry is an important sector of the Indian economy. The food processing industry sector, which leap-frogged during the period 1990-95 has slowed its pace in the past half decade as, the manufacturers have realized that the consumer is yet to familiarize himself with the products available in the market.

The food industry contributes about 18% of India's manufacturing output and around 5% of total industrial investment. The estimated turnover of this highly heterogeneous food and beverage industry exceeds Rs. 570 billion. Niche segments comprising packaged and branded food products have recently witnessed rapid growth accompanied by intense competition. Nearly 52% of the Indian household budget is spent on food items and the share of processed food entering the market is expected to rise rapidly.

Both in terms of foreign investment and number of joint ventures / foreign collaborations, the consumer food segment has top priority. By last year, foreign investment of Rs. 20,870 Million had been proposed. Deep sea fishing and aquaculture, milk and milk products, meat and poultry segments attracted attention of foreign investors, interest is also growing in fruit and vegetables and grain / cereal based products.

Maharashtra has been one of the major producers of fruits and vegetables, milk and meat products. Maharashtra has 10 to 15% production share of agro produce related to processed industry.

Major units in Maharashtra	a. Fruit and Vegetables
	b. Bakery Products
	c. Dairy Products
	d. Cereals
	e. Meat Products
	f. Fish Products

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1. Sairaja Fruit & Food Processing Pvt. Ltd, Phaltan
2. Gadre Marine Products, Ratnagiri
3. Aditi Pectins Private Limited, Islampur, Dist. Sangli
4. Sushant Bio-Pharmaceuticals Pvt. Ltd., Kolhapur

## **D. PHARMACEUTICALS INDUSTRY**

India's pharmaceutical industry is highly fragmented with over 16,000 licensed units and 250 units in the organized sector. The causes of fragmentation are historic. It was a highly controlled industry. The price of most of the drugs was regulated. The investments were not only low but also thinly spread out over a large number of companies. However, in the changing market, there is likelihood of major changes in years to come. Fragmented industry cannot continue for long and industry is sure to consolidate with acquisitions and mergers.

Indian pharmaceutical industry has been nurtured to a large extent by Indian patent laws, which recognized only process patents. Though India could build a strong base and infrastructure for production of medicines, which is evident from the impressive growth in production of bulk drugs and formulations, it never cared to spend on Research and development (R & D). Expenditure on R & D in India is still less than 3 per cent of the industry's turnover.

It may be seen that the Indian Pharmaceutical Industry has been growing at a healthy 16.7 per cent per annum over the last one decade. India is able to meet over 70 per cent of its requirement of bulk drugs and 95 per cent of formulations. The industry is well represented in almost all-therapeutic groups.

The industry in India is in a highly competitive market environment. It is also one of those industries where foreign investment is very high. A number of Transnational Corporation (TNCs) have plants in India. The country has strong advantage because of availability of relatively low cost skilled labour and a large domestic market. So far as the future of this industry is concerned, planning commission expects this industry to grow at 12 per cent per annum.

Exports of drugs and pharmaceuticals from the country are rising very fast. They have increased from Rs. 2256.6 crores in 1994-95 to Rs. 3177.7 crores in 1995-96 to record Rs. 4090.3 crores in 1996-97, registering an impressive annual growth rate of 34.4 per cent.

More than 20 plants in India have USFDA validation that is considered the strictest in the industry. Many companies have also been upgrading their facilities to match internationally recognized standards such as GMP requirements and ISO 9002 certifications.

- **PHARMACEUTICALS INDUSTRY IN MAHARASHTRA**

Maharashtra is a major center for both production as well as exports of basic drugs and pharmaceuticals in the country. The state accounts for about 40 percent of all India production of bulk drugs and formulations and its share in all India exports of it, is nearly 33 percent.

According to the business executives in pharmaceutical industry in Maharashtra, their exports may not receive a setback on account of IPR but instead of the same will have better growth, as 75 percent of the drugs will be off the patent in value. New molecules can be manufactured competitively because of availability of relatively low cost technical manpower in the country. It envisages a scenario where the West will come to East to buy the new molecules.

Maharashtra and Gujarat will continue to dominate this industry with more than half the nation's output and value addition. The Maharashtra Government has taken the right steps by introducing stringent pollution control laws. The total industries in this sector were scrutinized based on the available data and the following industries were selected for further detailed study & visits:

1. Verma Pharmacy Pvt. Ltd. , Pune
2. Kevera Herbals (I) Pvt.Ltd., Pune
3. Nu-Life Pharmaceuticals, Pune
4. Milan laboratories (I), Thane
5. Li-taka Pharmaceuticals Ltd., Pune

## **E. CHEMICAL INDUSTRY**

Maharashtra enjoys a competitive advantage in certain chemicals industries viz. Agro Chemicals, Fertilizers, Pesticides, Pharmaceuticals, Dyes, Plastic Processing specially chemicals and paints.

In Maharashtra chemical industry will continue to remain a large and a crucial industry segment catering to vital needs of agriculture, household consumption, industrial uses and other strategic and defense requirements. This means that chemicals are inevitable in many respects, but at the same time chemicals are hazardous also in many respects.

Maharashtra and Gujarat will continue to dominate this industry with more than half the nation's output and value addition. The Maharashtra Government has taken the right steps by introducing stringent pollution control laws. The total industries in this sector were scrutinized based on the available data and the following industries were selected for further detailed study & visits:

1. Rathi Dye Chem Ltd., Pune
2. Everest Flavours Ltd., Mumbai
3. Ajay Metachem Ltd., Pune
4. Iftex Oil & Chemicals Lt., Mumbai
5. Suparna Chemicals Ltd., Mumbai

## 2.4 GENERAL FINDINGS OF FIELD SURVEY OF SMALL & MEDIUM INDUSTRIES / ENTERPRISES

The study that was undertaken by contacting 23 small and medium scale industries from Maharashtra. These units covered following sectors:

- Electrical
- Engineering
- Food Processing
- Pharmaceuticals
- Chemicals

There was proper coverage of all regions of Maharashtra, except Vidharbha Region, which has two industrial centers namely, Nagpur and Amaravati. These two centers did not have adequate representations of all sectors as earmarked for the study.

As per the policy in vogue, the small-scale units are defined as those manufacturing units whose investments in plant and machinery is upto Rs. 10 Million. There is no clear-cut definition of medium scale units and these are always considered as between small and large-scale units.

By and large, enterprises were found to be organized, professionally managed and aware of their techno-commercial strength and their core competence.

The units have been successful in domestic market. A few of these have entered overseas markets as well.

The profiles of each industrial unit, which is considered for offering technology, are presented in '**Annexure**'. The profiles include broad details of the probable project, which can be set up. The costing considered in the profiles is in Indian currency and is based upon the prevailing prices of project parameters in India. During the detailed project report stage, actual costing pertaining to the relevant country will have to be carried out.