SUMMARY

Minor Research Project under UGC Scheme

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“Study of Small and Medium Enterprises in Automobile Sector in Western Maharashtra”

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Economic development of any nation is totally depends on industries. Industries play an important role in the Indian Economy. With a variety of different industrial sectors that feed off each other, a well balanced industrial sector is at the centre of economic development.

The government strived harder than ever to facilitate the process of industrialization. Since the advent of the year 1947, various incentives were provided by the government of India which encouraged the growth of entrepreneurs amongst the Indian population. The import policies were highly favorable and were partial towards the breeding of new industries.

Due to high tariffs before the liberalization period, most Indians firms enjoyed protection of some kind or the other. Free imports were not forthcoming. Restrictions on royalty payments discouraged foreign suppliers to offer latest technology to Indian partners. Manufacturers had a field day as this situation continued for a long time, leading to the creation of artificial scarcity even for basic items such as passenger cars and scooters. MRTP restrictions FERA barriers, a restrictive licensing policy, price controls (steel, fertilizers, lubricants etc.), public sector monopolies, entry barriers for MNCs in power, electronics, mining, infrastructure, aviation, oil, telecom, sectors, capital market restrictions came in the way of investing in technological up-gradation, buildings viable and globally competitive plants and offering goods and services to customers at an economical cost.

The various beneficial effects of globalization in Indian Industry are that it brought in huge amounts of foreign investments into the industry especially in the BPO, pharmaceutical, petroleum, and manufacturing industries. As huge amounts of foreign direct investments...
were coming to the Indian Industry, they boosted the Indian economy quite significantly. The benefits of the effects of globalization in the Indian Industry are that many foreign companies set up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment to many people in the country. This helped reduce the level of unemployment and poverty in the country. Also the benefit of the Effects of Globalization on Indian Industry are that the foreign companies brought in highly advanced technology with them and this helped to make the Indian Industry more technologically advanced.

The various negative Effects of Globalization on Indian Industry are that it increased competition in the Indian market between the foreign companies and domestic companies. With the foreign goods being better than the Indian goods, the consumer preferred to buy the foreign goods. This reduced the amount of profit of the Indian Industry companies.

**Small Medium Scale Enterprises (SMEs)**

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in addition to provide wide range of services.

SME sector of India is considered as the backbone of economy contributing to 45% of the industrial output, 40% of India’s exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. With approximately 30 million SMEs in India, 12 million people expected to join the workforce in next 3 years and the sector growing at a rate of 8% per year, Government of India is taking different measures so as to increase their competitiveness in the international market.

There are several factors that have contributed towards the growth of Indian SMEs. Few of these include; funding of SMEs by local and foreign investors, the new technology that is used in the market is
assisting SMEs add considerable value to their business, various trade directories and trade portals help facilitate trade between buyer and supplier and thus reducing the barrier to trade.

<table>
<thead>
<tr>
<th>Manufacturing Enterprises – Investment in Plant &amp; Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>Micro Enterprises</td>
</tr>
</tbody>
</table>
| Small Enterprises                            | Above Rs.25 lakhs &
|                                            | upto Rs.5 crores | Above $62,500 and
|                                            |                 | Upto $ 1.25 million   |
| Medium Enterprises                           | Above Rs.5 Crores and
|                                            | Upto Rs.10 Crores | Above $ 1.25 million
|                                            |                 | upto $ 2.5 million    |

<table>
<thead>
<tr>
<th>Service Industries – Investment in Equipments</th>
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</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>Micro Enterprises</td>
</tr>
</tbody>
</table>
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|                                            | Upto Rs.2 Crores. | Above $ 25,000 upto $0.5 million |
| Medium Enterprises                           | Above Rs.2 Crores &
|                                            | Up to Rs. 5 Crores | Above $ 0.5 million
|                                            |                 | and upto $ 1.5 million |

MSME sector, its critical role and place in the Indian economy is very well known in terms of employment generation, exports and economic empowerment of a vast section of the population. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country which is next only to the agricultural sector.

**Industrial Scenario in Maharashtra and MSMEs.**

Maharashtra has been in the forefront in sustaining industrial growth and in creating environment conductive to industrial development. Investment – friendly industrial policies, excellent infrastructure and a strong and productive human resource base have made it a favoured destination for manufacturing, export and financial service sectors. However, the year 2008 – 09 witnessed a heavy turmoil in the global economy, which had an impact on the Indian as well as State economy.
Since introduction of the Five Year Plans for the economic development, the Government of India has recognized the importance of the small scale industries. Over the years, as the time passed the definitions of industry has been refined. Today, the Small and Medium Manufacturing Enterprises and Services Sector Enterprises are contributing substantially for the GDP as also in respect of providing employment to a vast number of youths. Recently the term Small Scale Industries has been newly coined as Small and Medium Enterprises.

The word automotive has been consciously used. The phrase automotive industry encompasses not just all the cars and other passenger vehicles made all over the world by all other ancillary industries that are connected with, and supply parts and systems to car makers. In a broader sense, all repair and fuel stations also come under automotive industry. All sellers, marketers and manufacturers are also included in automotive industry.

As automobile is anything that moves on its own on roads, all motorcycles get included in the umbrella term and also the scooters and mopeds that have their own engine and run on two wheels. Even three wheelers and what is referred to as an auto in India is an automobile in this sense. The phrase automotive industry encompasses not just all the cars and other passenger vehicles made all over the world by all other ancillary industries that are connected with, and supply parts and systems to car makers. In a broader sense, all repair and fuel stations also come under automotive industry. All sellers, marketers and manufacturers are also included in automotive industry.

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in the global economy, which had an impact on the Indian as well as State economy.

**GSDP for 2012-13**: The advance estimates of the gross states domestic product (GSDP) at constant (2004-05) prices is expected at Rs.8, 43,565 crore with growth of 7.1 % over 2011-12.

**No. of Part II Micro, Small & Medium Enterprises Filed EM upto the end of Sept 2013**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>District</th>
<th>Total No. of Micro Enterprises</th>
<th>Total No. of Small Enterprises</th>
<th>Total No. of Medium Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pune</td>
<td>1684</td>
<td>483</td>
<td>646</td>
</tr>
<tr>
<td>2</td>
<td>Sangli</td>
<td>224</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>3</td>
<td>Satara</td>
<td>377</td>
<td>26</td>
<td>114</td>
</tr>
<tr>
<td>4</td>
<td>Solapur</td>
<td>207</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>5</td>
<td>Kolhapur</td>
<td>1085</td>
<td>49</td>
<td>364</td>
</tr>
<tr>
<td><strong>Pune Region</strong></td>
<td><strong>3577</strong></td>
<td><strong>607</strong></td>
<td><strong>1185</strong></td>
<td><strong>234</strong></td>
</tr>
</tbody>
</table>
To study the current overall position of the SMEs working in the Western Maharashtra.

To study their weaknesses and problems.

To try to find out possible operative solutions

Observations:

- Compared to the global standard the technology being used by the Indian automobile manufacturing sector needs to be stepped up. Naturally this will require inflow of sizable capital.
- Raw material costs are constantly on increasing and therefore there is strain on profitability. Profits are shrinking.
- Off late, there is a global recession and there is adverse impact on the automobile market. There is slow down on the export front and until the global market revives there will be sluggish growth of this automobile sector.
- Because of the fierce competition, the bargaining power of the automobile component suppliers is diminishing. The original equipment manufacturers are naturally trying to squeeze the suppliers.
- The fall out of this increased competition is that the rivalry between the suppliers is increasing and in the process the OEMs are benefitted. In this process the small firms are targeting the same customers offering marginally lower prices.
- In respect of developing countries some manufacturing companies have entered into Free Trade Arrangement and are undertaking bulk buying of the automobile components. This has adverse impact on the domestic manufacturers.
- So far as availability of infrastructure needed for growth and development is concerned the MSMes are facing power shortage problem as well as power tariff problem. In the adjoining Karnataka state the power is cheaper and available per requirement but the situation in Maharashtra is not so. This is mainly because of the imposition of electricity duty. So also the roads and ports are also need to be developed so as to cut costs on transport.
Usually the MSMEs are having strain on their ability to spend on Research and Development. There is low level of research and development capabilities which is a weakness of this sector.

For targeting growth there is need to pump in fresh capital investment.

The MSMEs are having problem in raising the borrowed funds from the financial institutions. There is need to improve the dialogue between the MSMEs and the financing banks. Bank’s are flooded with funds, there is no off take of credit, but the banks are applying stringent measures to ensure that the accounts do not get in NPA portfolio. They are extra cautious.

There is availability of counterfeit components which has vitiated the market.

It has been observed that because of the unhealthy competition amongst the SMEs engaged in the manufacturing automobile spare parts the multinational companies do exploit these SMEs.

It has been observed that the SMEs do not give preference to the local youth in employment.

Suggestions:

1. As the volume of problems vouched relating to bank finance are more, the researcher suggests that the Lead bank of the district should periodically organize a meeting of the SME representatives and the prominent banks in the district and try to sort out the problems by removing the misunderstanding amongst themselves. This can be done jointly with the District Industries Centre and Industries Associations at the District.

2. The Industrial Training Institutes at the district should have a direct rapport with the local industries and develop short duration courses and provide input as required by the industries. This will also help in reducing the employment problem.

3. The industries should have a good rapport with the MSEB authorities to have a regular power supply.
4. There is a need to have proper upkeep and maintenance by the SMEs in their workshops and offices.

5. The industries having over 250 employees should have a human resources development department and should have a professional approach in dealing with the employees and workers.

6. The industries should provide greater attention to the health care of their human resources to have positive impact on their productivity and profitability.

7. In Pune district SMEs it was observed that these industries are mostly dependent on the migrated labour. Mainly this labour comes from Uttar Pradesh and Bihar. (The off short of this migration is reflected in the increase in crime rate in the industrial area).

8. The industries should have a good rapport with the local police to curb the thefts.

9. It is suggested that the SMEs engaged in the manufacturing automobile spare parts should form their association which will enable them to avoid the exploitation.

10. The SMEs should as far as possible recruit the local youth so that the inflow of Bihari & UP youth will be arrested which will have positive impact on the social and industrial peace in the area.

    The state government has the principle responsibility to provide adequate infrastructure for smooth running of industries. Therefore, the state government should accord top priority in making provision for uninterrupted power supply to the industries in the State.

    The state government may solicit Public Private Partnership in providing and maintaining infrastructure projects.

**Conclusion:**

At the end of this study the researcher is of the view that the objectives originally set out are fully achieved. The gradual increase witnessed in the per capita income in India has led to leading aspirations
and greater demand for automobiles, which in turn has boosted the demand for automobiles, both in two and four wheeler segment. Besides this, the easy availability of credit for purchase of the vehicles on installments basis has also boost up the demand for automobile sector.

The Indian auto components industry is well poised to achieve strong growth in coming years owing to rising domestic demand in the OEM market and expanding replacement market. According to the Auto Components Manufacturers Association (ACMA), the Indian auto components industry is likely to grow to US$ 110 billion by 2020 with the domestic market share of ~US$ 80 billion. The share of the auto components industry in the country’s GDP is likely to increase to 3.60% by 2020, up from 2.40% in FY12. Competition is expected to increase and prices of raw material are likely to follow an upward trend. This is expected to exert pressure on the industry’s profit margins. In such a scenario, cost control programmes would assume greater significance for the industry players, both big and small.

Pune
August 2015

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