

Introduction

The CEA, with grant funding from the UKTI Advanced Engineering Sector, are implementing an India initiative to evaluate and develop opportunities for CEA members in this enormous and rapidly developing market. The two year project, called the *India Knowledge Base*, comprises a four phase approach:

- Research
- In Market Meet the Buyer Seminar Visits
- Inward Visits by Indian manufacturers and end users
- UK Conference / Workshops.

Methodology

The CEA is looking to better understand what opportunities exist in India for both UK OEMs and component manufacturers. For OEMs, we wish to identify who the end users for construction equipment are in market, what their purchasing strategies are – and what applications construction equipment purchased is used for. Additionally we are seeking to identify sources of components and opportunities for technology transfer / manufacturing under licence. For UK component manufacturers the CEA wants to identify potential customers, joint ventures and manufacturing sources in India.

India has a major domestic market for construction equipment. Over 31,600 units were sold in 2006 - an increase of over 40% from 2005. This is forecast to expand to over 60,000 units by 2011. The construction sector, which is the second largest employer after agriculture, employs a workforce of 33 million and saw a growth of 12.1% last year. Large scale civil engineering work to improve India's infrastructure as well as a booming residential and non-residential construction sector have been the main drivers of this growth. The total investment in the sector amounted to \$60 billion during 2006 and in the 11th Five Year Plan (2007-2011) a staggering investment of \$347 billion is expected in infrastructure development. The construction industry's value is forecast to reach \$129 billion in 2011, contributing 10.5 per cent to the country's GDP. (Statistics courtesy of Off-Highway Research).

Implementation

Phase One

The first research phase was completed in October / November 2007 by Joanna Oliver who undertook a two week visit to India. Joanna spoke to 16 companies in four Indian cities – New Delhi, Pune, Chennai and Bangalore - over two weeks and met with global and domestic OEMs, component manufacturers, contractors, consultants, rental operations, research companies and government departments. The areas covered included:

- Applications and uses for construction equipment in India
- Indian Infrastructure – present and planned
- The size of the Indian construction equipment market
- The scope of domestic construction equipment production
- The Indian Supply Chain
- Indian Government / Association structure

Companies visited (see document "India Research Visits" for details of the companies):

Components

Amalgamations Group
Bharat Forge
TVS Sundram Fasteners

OEMs

JCB Ballabgarh
JCB Pune
Telcon / Telcon Hitachi

Contractors

Larsen & Toubro – L&T
Punj Lloyd
ACT

Research and Consultancy

Off Highway Research
Continex
Mott MacDonald

Rental and Distributors

Quipo
ACT

Associations and Government

National Highways Authority of India
Builders and Contractors Association of India
British High Commission Chennai

The visit to the JCB plants in both Ballabgarh and Pune, employing around 1,200 people, gave a great insight into how a UK OEM can make a huge impact into the Indian manufacturing sector. The Pune plants in particular were a good example of state of the art facilities and how quickly such premises can be built. JCB source around 90% of components locally and have an astonishing 75% share of the Indian Backhoe market. Telcon (TATA) in Bangalore showed how Indian domestic OEMs worked – and how an international joint venture (with Hitachi) works.

Meetings with leading contractors, Larsen & Toubro, Punj Lloyd and ACT gave an understanding of the end users of construction equipment. Comments from all three companies were that, while they were impressed by the quality and reliability of global standard equipment, they felt that delivery times were much too long, prices too high and that some equipment was much too sophisticated technologically for some of the under educated operators and was too difficult to repair in the field. Worryingly one these companies stated that they were now purchasing much of their equipment from China as, not only was the cost 50% lower than that of global equipment, but Chinese manufacturers could deliver in a matter of days, provide good in market service support and supply free loan machines to support large orders. It has been alleged that this is eased by the enthusiastic support of the Chinese government.

Meetings with component manufacturers - Bharat Forge – Pune, TVS - Sundram Fasteners – Chennai and the Amalgamations Group - Chennai were especially enlightening as to the high standards and advanced manufacturing processes employed in India. At Bharat Forge – the largest single site forge in the world and the second largest global forging company – the facilities rivalled those of any seen in the west. With their traditional automotive and commercial component sector back ground plateauing out, all three companies were looking to break into the construction equipment sector, and were investing in equipment to allow them to service the sector. Both Bharat Forge and TVS had already acquired UK companies and were manufacturing in England and Scotland. All three companies were interested in meeting UK OEMs and also component supplies for partnerships.

On the research side Joanna met with Off Highway Research in their newly opened Delhi offices, run by Nitin Sareen a formerly of JCB and Terex Vectra. Off Highway are sector filling a gap in the research market in India and have just completed the second multi-client study of the India market. Consultants, Mott MacDonald, based in Noida detailed how they work with government and major contractors to undertake infrastructure development programmes.

Continex in Chennai are a company set up by Sri Nagesh, a former head of the Automotive and Construction Equipment Sector at the British High Commission Consulate in Chennai to assist UK companies source components in India and find partners in the market. Continex have expressed an interest in providing an office for the CEA and its members in India and assisting them to find partners, distributors, customers etc. Continex will run the 2008 CEA seminars and other in market events.

From Government and Associations Joanna spoke to the National Highways Authority of India – the government body responsible for setting and awarding contracts for infrastructure projects and the Builders & Contractors Association of India who represented over 30,500 builders and contractors. They are hoping to set up a manufacturers group for construction equipment.

The British High Commission Consulate in Chennai detailed how they could assist UK companies wishing to visit India with research and market introductions. Finally the emerging rental sector was represented by

Quipo Rental & Finance in New Delhi and Calcutta, a division of Srei Equipment Finance and rented equipment around India, largely to contractors on infrastructure projects.

Although the Indian education system produces a high number of engineering graduates, all employers cited very high attrition rates in their workforce as a major problem. As the economy rapidly expands there is always another employer willing to offer a few hundred rupees a week more to secure good workers.

Despite the pitfalls of high import duty for construction equipment – presently around 35%, high volume of domestic production, vast geographical area and poor communications and infrastructure, there are still major opportunities for UK manufacturers in India. Government infrastructure projects often stipulate that machinery must be of a certain standard and maximum age and so there is still a market for imported products. Additionally certain categories of equipment that are not produced domestically are free of import duties, along with equipment used on major government projects.

Phase Two – 2008

Phase Two is to take UK companies with an interest in developing / expanding their Indian activities, to India to meet with potential partners. It is intended to run a Seminar Mission using the model successfully established in China; i.e. to take a group of four to six UK companies to two or three Indian cities. Companies make a presentation of around 30 – 40 minutes each in the morning and, following a networking lunch, have one-to-one meetings with interested companies in the afternoon. The CEA would also make a generic sector presentation on behalf of the UK sector at the seminars.

The Meet the Buyer Seminars will be held during the week commencing 8 September 2008, starting in Chennai with a seminar followed by a joint networking event in conjunction with the SMMT (Society of Motor Manufacturers and Traders).

Seminars will be held in **Pune and Chennai** - Indian construction equipment and automotive clusters. To maximise the impact of the UK presence in India the CEA will link up with delegates from the SMMT (Society of Motor Manufacturers and Traders) in Chennai for joint networking events. The CEA will:

- organise the guest invitations (speakers welcome to add any of their own contacts)
- arrange the Seminars, factory visits and networking events,
- Arrange in market travel, domestic flights and hotels.

Thanks to generous UK Trade & Investment sponsorship, **no charge** is made for participation in the Seminars – although speakers will be required to meet their own costs for travel, accommodation, subsistence etc. Grants may be available through the Regional Development Agencies. Places are limited, and any UK company interested in participating should return this to Joanna Oliver as soon as possible – joanna@aslnorth.co.uk or phone +44(0) 208 2534502

Phases Three and Four

Funding for phases three and four – a UK Inward Visit by Indian manufactures and end users and an India Seminar / Conference to be held in the UK have been bid for in the 2008/09 UKTI Advanced Engineering bidding round. The results of which should be known shortly.

Conclusion

With its commitment to improving infrastructure, commercial buildings and housing stock, India is a vast market with huge opportunities for UK manufacturers – both OEMs and component manufacturers. However, it is also a highly price sensitive market with high import tariffs for most finished good and components and is intensely bureaucratic and demanding. Labour costs are increasing and workforce attrition rates are high. Due to heavy demand, the costs of raw materials, especially steel are at a level where the cheap manufacture of basic components is not necessarily lower than in the west. UK companies should not expect it to be easy to break into – but with perseverance, research and the right product there are excellent opportunities to increase sales, find partners and joint ventures and source components.

With its ongoing *India Knowledge Base* programme, CEA strives to identify these opportunities and to ease market entry for suitable UK companies.

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