The Indian Forging Industry - An overview

The Indian Forging Industry has emerged as a major contributor to the manufacturing sector of the Indian economy. The salient features in which the Indian forging industry functions is summarized below. Briefly, the composition of the Indian forging industry can be categorized into four sectors - large, medium, small and tiny. As is the case world over, a major portion of this industry is made up of small and medium units/enterprises (SMEs). Only about 5% is made up by the large enterprises in terms of number. Out of the 330 odd units the large sector consists of about 9-10 units, the medium and small sectors consists of about 100 units and under the tiny sector, the units functioning are far too many and the number is difficult to estimate. The industry was previously more labour intensive (it is estimated that this industry provides direct employment to about 38000 people),but now with increasing globalization it is becoming more capital intensive. The total investment in the large and medium sectors is estimated to be around US$600 million. The small scale units too are increasing their capital investment to keep pace with the increasing demand especially in the global markets as also to broaden the areas of demand for forgings. Many of them are now suppliers to Original Equipment Manufacturers (OEMs) in the automobile sector also, which speaks volumes about efforts at technology and quality upgradation.

Domestic and export performance

The year 2003-04 (April-March) was a good one for the forging industry, after a long spell of recession. The slow recovery which started in October 2002 picked up momentum during last year. The overall production of the forging industry increased by about 22% and touched approximately 550,000 tonnes for the year. The overall capacity utilization also improved considerably, to 65-70 per cent thanks to the excellent recovery of the automotive sector and especially the passenger car segment, which did exceedingly well both in domestic market as well as in exports. Before that, capacity utilisation in the industry was 40 to 50 percent, caused by recession in the automobile industry, and particularly by slowdoown in the commercial vehicle segment.

This apparent underutilization of capacity was due to the fact that following the upsurge in the demand and production of the automotive sector during the first half of 1990s, most forging units embarked on capacity expansion, and technology upgradation. While the automobile industry is the mainstay for the forging industry, thanks to the steady progress achived by the industry in upgrading technology and making advanced type of forging, required by Railways, Oils and Gas, Power, Machine tool sectors etc. are the industry's regular customers. India imports less than 5% of its requirements of forgings. On the other hand, the Forging industry has captured the opportunity created due to increased outsourcing of components by automotive OEMs from low-cost countries including India.

Today, India's forging Industry not only meets almost the entire domestic demand of forgings,but is also a large exporter and is making a significant contribution to India's exports.

The Indian forging industry has shown a commendable performance by registering export growth of almost 30%. Exports are now at US$ 180 million. Technological developments have also contributed for the industry's steady growth in exports, which were a mere US$ 20 million or so ten years ago. The major markets are USA, Europe, China etc. However, not more than 20 to 25 manufacturing units are engaged in direct exports.

Exports growth

Bharat Forge Ltd, the country's largest exporters increased export from US$ 60million in 2002-03 to US$ 74 million in 2003-04, a growth of 23%. Other prominent exporting companies like M M Forgings Ltd., Super Auto Forge Ltd., R N Gupta & Co., Victor Forgings showed their excellent export performance by shipping more than 40% to 100% of their production during the year.

Inorganic growth was another strategy employed by Indian companies to establish a global presence. Bharat Forge acquired Carl Dan Peddinghaus, the second largest forging company in Germany, in 2004. The CDP acquisition has made Bharat Forge the second largest forging company in the world. Sundaram Fasteners acquired the prestigious forging unit of Dana Corp, UK. This has given SFL a firm foothold in the UK and other European countries. Besides, auto part maker Amtek Auto Ltd has acquired the entire equity stake of the GWK Group in UK. The industry expects the kind of inorganic growth to further increase in the years that follow.

Increasing domestic demand

Apart from the increase in steel prices, the industry faced shortages on account of lower availability of forging quality steel caused due to the closure of many mini steel plants and discontinuation of the production by some of the major steel plants. The problem was further aggravated due to the restrictions on import of steel and high import duty. Subsequently, the Govt. initiated steps to facilitate imports and import duties have also been reduced. However, the industry is continuing efforts to optimize its cost structure. In addition to steel, increasing cost of other inputs like energy/power and fuel place an added pressures on forging companies.

Major constraints / key issues

The major constraints (on the domestic and export front) faced by the forging industry during the year were mainly - high import duty and volatile international prices of forging quality steel coupled with the reluctance of customers to compensate this, slow recovery of tractor industry, inefficient economies of scale, need to strictly adhere to the stringent environment norms, lack of adequate backward/forward Linkages, difficulties in consolidation of capacities.

The industry also faces hindrances on the export front which are the following: impact of the volatile foreign exchange rates, reluctance of the overseas buyers to compensate for the steel price increases in India which were around 1 to 1.5 times more than international prices, inadequate investment in technology upgradation, inadequate R & D and training for coping with the demands of the export market, inadequate testing and validation facilities for smaller forging companies, inadequate overseas marketing support facilities and cost competitiveness adversely affected due to constant cost escalation.

Future outlook

Economic indicators suggest that a global economic recovery is in the offing. The US economy grew by 3.1% in 2003, surpassing all the other major developed economies. US economic growth in 2004 is expected to be in the region of 4.5% to 5%. The Japanese economy that had been in a state of stagnation for the past six years, registered growth of 2.7% in 2003. China continued on its blistering growth path, recording GDP growth of 9% in 2003. The Chinese economy continued to grow at a high level in 2004. The same level of growth is expected to continue this year as well. Economic growth in Europe, though more sedate was satisfactory in 2004 and is expected to surge this year as well. As regards the Indian economy, the country recorded GDP growth of 8.2% in 2003-04. The Indian economy is projected to grow at the rate of 6.5 percent this fiscal. This makes India the second fastest growing economy in the world. This is undoubtedly a strong platform for the Govt.to launch the next phase of reforms (which in all probability it will) through which past gains made by the Indian economy can be consolidated upon and the economy placed on a path of consistent high growth.

The future looks encouraging for the forging industry in terms of the expected surge in global demand. As a result of liberalisation, more MNCs have entered the domestic automobile market. This has opened up more business opportunities for the forging industry.

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