SECTION - II

INDIAN INDUSTRIES
Whenever the growth trajectory of any economy is studied, an important place is always given to the industrial sectors depending on the type of economy. In other words, the success of any economy is measured by the presence, competitiveness and contribution of its industries. The important parameters that provide significance to the emergence of industrial sector are size and capital intensity. Industry size is measured in different manners like in terms of levels of sales, assets, value-added, capital deployed and employment. Similarly, capital intensity is measured, as amount of fixed capital used in relation to other inputs (especially labour) or the overall output.

3.1 BASIC IMPORTANCE OF INDUSTRIES

Before Independence, the British Government in India had provided discriminating protection to some selected industries accompanied by the most favoured nation clause for the British goods. Despite this, a number of domestic industries, viz., cotton textiles, sugar, paper and iron and steel expanded. No effort was, however, made to foster the development of capital good industry in India. Not surprisingly, on the eve of India’s Independence in 1947, the Indian industrial sector was characterized by low levels of capital intensity marked by high concentration of employment either in the lowest size group, i.e., household enterprises and small factories or in the highest size group, i.e., large factories. The medium size factories were virtually absent in the Indian industrial sector. Low capital intensity in the Indian industry was primarily due to the prevalence of
low wages and small size of domestic market on account of low per capita income. The Indian industrial policies in the pre-liberalization era had imposed several restrictions on the manufacturing sector. All these restrictions did not allow an optimal allocation of resources in response to the ever-changing economic environment in the domestic as well as foreign domain. In 1991, India chose to open her economy to global economic forces and formulated the New Economic Policy (NEP) that aimed at promoting growth by eliminating supply bottlenecks that hinder competitiveness, efficiency and dynamism in the economic system.

Globalization has emerged as the new challenge of the twenty-first century for the industrial sectors to grow. The services sector registered an impressive growth while the agricultural sector has its own limits to growth. It is time to adapt to the fast changing policy environment and to clearly understand the political economy of these changes both at the national as well as the international level. In the post economic reform era, competition is becoming more intense year by years and has resulted in salient changes in market structure for industrial products.

3.2 INTRODUCTION TO INDIAN INDUSTRIES UNDER STUDY
The present research has covered four Indian industrial sectors on the basis of a sound mix of traditional and modern, basic and advanced, employment and revenue. This section covers a brief introduction of the industrial sectors as follows:
3.2.1 Engineering Sector

The engineering sector is the largest segment of the overall Indian industrial sector. India has a strong engineering and capital goods base. The important groups within the engineering industry include machinery and instruments, primary and semi finished iron and steel, steel bars and rods, non-ferrous metals, electronic goods etc. The engineering sector employs over 4 million skilled and semi-skilled workers. The sector can be categorized into heavy engineering and light engineering segments.

a. Heavy Engineering Industry: It is one of the largest segments of industrial production. It occupies a whole range of industries such as Heavy Electricity Machinery, Turbines, Generators, Transformers, Switchgears, and Textile Machinery etc. This segment forms the majority of the engineering sector in India.

b. Light Engineering Industry: It is a diverse industry with a number of distinctive sectors and sub sectors including low-tech items like castings, forgings and fasteners, highly sophisticated microprocessor based process control equipment and diagnostic medical instruments. This group also includes industries like bearings, steel pipes and tubes etc. The products covered under the engineering industry are largely used as input to the capital goods industry.

India has a well-developed and diversified industrial machinery/ capital base capable of manufacturing the entire range of industrial machinery. Among the developing countries, India is a major exporter of heavy and light engineering goods, producing a wide range of items. The bulk of capital goods required for power projects, fertiliser, cement, steel,
petrochemical plants and mining equipment are made in India. Also construction machinery, equipment for irrigation projects, diesel engines, tractors, transport vehicles, cotton textile and sugar mill machinery are being made in India.

c. Players in the Engineering Sector: Players in the engineering sector in India can be categorised as follows: Bharat Earth Movers Limited (BEML), Siemens, Cummins India, ABB, Bharat Heavy Electricals Ltd. (BHEL), Larsen & Toubro (L&T), Engineers India, etc.

3.2.2 Fast Moving Consumer Goods (FMCG) Sector

The FMCG sector has been the cornerstone of the Indian economy. Though, the sector has been in existence for quite a long time, it began to take shape only during the last fifty years. Post-reforms, the industry's growth has been hinging around an escalating rural population, which has witnessed significant rise in disposable incomes. Consequently, the rural markets have been witnessing intense competition in almost all the consumer product classes. Another reason, which has led to rise in this trend, is the saturation in urban markets in most of the consumer non-durable goods categories. This has led to the industry players scrambling for greater rural penetration as a future growth vehicle, the area which accounts for 70% of the total Indian households. Due to the immense growth and profit opportunities, this sector now-a-days is also termed as Fast Moving Corporate Guerillas.
The FMCG sector consists mainly of sub segments viz. personal care, oral care and household products. Of late, there seems to be a liberal approach towards branding of the companies/products as FMCG; companies in businesses like liquors (United Breweries), paints (Asian Paints), adhesives (Fevicol) too are being labeled as FMCG stocks in the stock market parlance.

With domestic consumption close to Rs 80,000 crore, the FMCG sector today is one of the largest in the country. One of the biggest challenges facing the Indian FMCG industry is to get to the next level of innovation, besides presence of a huge unorganized market. The key characteristics of the Indian FMCG market are: heavy launch cost, less capital intensive, contract manufacturing, marketing drive and market research.

The key factors that are expected to trigger future growth for the FMCG industry include reduction in excise duties, relaxation of licensing restrictions and reduced dominance of unorganized sector due to creation of level playing field. The growing reach of advertising media like satellite and cable TV too is expected to give a boost to the market penetration initiatives of the industry players. Indian FMCG space is all set to enter a new growth phase. It looks like the industry is all set for a fast-paced race ahead.

**3.2.3 Information Technology Sector**

Over the past decade, information technology industry has become one of the fastest growing industries in India. Strong demand over the past few years has placed India amongst the fastest growing IT markets not only in the Asia-Pacific region but also in
the world that has provided India a distinct stand-out on a global platform. Its growth is dominated by IT software and services such as Custom Application Development and Maintenance (CADM), System Integration, IT Consulting, Application Management, Infrastructure Management Services, Software testing, Service-oriented architecture and Web services.

**a. On a High Growth Curve:** The reasons why the Indian IT industry has been a success are:

- The Indian IT-ITES industry has recorded 33 per cent growth in exports, clocking revenues of US$ 23.6 billion in FY 2005-06, as compared with export revenues of US$ 17.7 billion in FY 2004-05.
- FY 2005-06 also saw the overall Indian IT-ITES industry (including domestic market) growing by 31 per cent registering revenues of US$ 29.6 billion, up from US$ 22.5 billion in 2004-05.
- The ITES-BPO segment clocked revenues of US$ 6.2 billion, recording a growth of 37 per cent.
- Domestic market clocked revenues of US$ 6 billion in FY 04-05 from US$ 4.8 billion in FY 05-06.

**b. Growth Drivers:** The growth in India's services exports has been led by many factors, including:

- A strong demand and increased traction for traditional services like ADM.
- New areas like engineering services.
• Indian companies are enhancing their global service delivery capabilities through a combination of green-field initiatives, cross-border M&A, partnerships and alliances with local players.

• Global software product giants such as Microsoft, Oracle and SAP have established their captive development centres in India.

c. Major IT Companies in India:

• Tata Consultancy Services
• Wipro Technologies
• Dell
• Infosys Technologies

d. Future Outlook: Rapid growth will continue to be the hallmark of the IT-ITES sector during coming years. The domestic market too is forecasted to grow rapidly, based on a rollout of E-governance, initiatives and automation of key sectors such as retail, healthcare, transportation and manufacturing among others. The sector is well on track to achieve its aspired target of US$ 60 billion in export revenues and US$ 73-75 billion in overall software and services revenues by 2010.

3.2.4 Textile Sector

The Indian textile industry is one of the largest and most important sectors in terms of output, foreign exchange earnings and employment in India. It contributes about 20 per cent of industrial production, 9 per cent of excise collections, 18 per cent of employment in the industrial sector, nearly 20 per cent to the country’s total export earnings and 4 per cent to the GDP.
a. Growth Rate of Textile Sector: India's Textile Industry is the second largest in the world, next only to China, with annual shipments of USD 20 billion and a work force of 20 million people. It generates about 7% of India's GDP, 20% of its industrial output, and 38% of its export earnings. The competitive position of Indian Textiles largely reflects its vast domestic fiber base, huge low cost and skilled work force established allied industries, significant yarn and fabric capacity; and manufacturing flexibility. The Indian textile industry is pre-dominantly cotton based with 70 percent of the raw material consumed being cotton. It is composed of three major sectors, namely, the mill-made, also called the organized sector, the handloom and powerloom sectors both being classified as decentralized sectors and the hosiery and garment sector.

b. Future Outlook: There is a sense of optimism in the industry and the industry is projected to grow at the rate of 16 per cent in the next five years. The policy measures initiated by the Government are showing striking results. Investment has increased significantly in the textiles sector which will generate 17.37 million jobs by 2012. Today, the industry is increasingly embracing modern technology and work processes, becoming more globally competitive, building strong brand equity for its products, and consistently achieving higher growth rates than ever in its long history. The Government is committed to transform what is today an emerging or sunrise sector, into a developed industry.

The purpose of the present research is to address the previously noted gaps in the available knowledge regarding the set of factors affecting dividend decision and the hidden management perceptions regarding dividend decision, specifically in respect to
industries in India. Thus, this study is uniquely valuable to the industry. As the value of focussed studies on few identified industries is being increasingly recognized, the present study has covered four industrial sectors viz. Engineering, FMCG, Information Technology and Textile. An attempt has been made to select the industrial sectors on the parameters of contribution to GDP and employment, mix of traditional and modern sectors, strong base of an economy and offering promising opportunities for growth.

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