CHAPTER FOUR

INDUSTRY PROFILE
CHAPTER FOUR

4.1 Introduction

Overview of Industrial Sector in India

Growth in the industrial sector has been buoyant in the year 2010- 2011. Industrial growth in the country has in terms of long run trend aligned with the growth of core industries during the post reforms period 1991 and 2011-2012 averaged 6.7 percent as against GDP (Gross Domestic Product) growth of 6.9 percent. The share of the industry in GDP (Gross Domestic Product) remained generally stable at around 28 percent during the period.

The share of manufacturing which is the most dominant sector within the industry has also remained in 14 to 16 percent range during this period. The manufacturing sector showed a remarkable robustness, growing at rates of 12.6 percent and 9.9 percent during the year 2010 - 2011. India’s post recovery industrial output growth has been largely driven by few sectors such as the automotive sector along with the revival in textiles, leather, food products and metal products.

Employment in the industrial sector increased from 64.6 million persons in 1999 – 2000 to 100.7 million person’s in 2009 - 2010. The share of industry in total employment in the country also increased from 16.2 percent in 1999 – 2000 to 21.9 percent in 2009 – 2010.

The IIP (Index of Industrial Production) which is the key indicator of industrial performance has shown that the recent industrial growth measured in terms of IIP has been fluctuating, however there was a recovery of 2.5 percent in 2008 – 2009 to 5.3 percent in 2009 – 2010 and 8.2 percent in 2010 -2011.

The corporate sector performance in a country is also an indicator of the industrial performance of the country. On front of corporate sector performance Indian corporate sector showed a remarkable performance as financial results of listed manufacturing companies indicated robust sales growth during 2011 – 2012. Investments and capacity additions are critical for sustained industrial growth. The rate of GCF (Gross Capital Formation) of broad sectors averaged 10.9 percent during
2004 – 2011 almost the same as the rate of growth of GCF (Gross Capital Formation) in the economy as a whole.

For India to maintain its momentum of GDP (Gross Domestic Product) growth rate, it is vital to ensure that the robustness of FDI (Foreign Direct Investment) inflows is maintained. FDI (Foreign Direct Investment) inflows increased to US$ 24.19 billion during 2011 indicating an increase of 50.8 percent. Drugs and pharmaceuticals, services sector, telecommunications, construction, metallurgical industries and power sector attracted the maximum FDI (Foreign Direct Investment) during the year 2011 - 2012.

Industrial credit growth rate moderated significantly however there has been a sharp pick up in credit flow in 2011. Build up of credit to industries has recorded a higher growth in the current fiscal year compared to 2010 – 2011. Credit growth to industry in the year 2011 was comparatively higher in paper products, vehicles, vehicles parts, transport equipments, gems, jewellery, petroleum, coal and nuclear products.

With economic reforms it has been expected that the industrial sector would emerge as the key to additional employment opportunities. There has been an increase in opportunities in the industrial sector especially in construction sector.

The challenges before the industrial sector in India are that the industrial sector growth is expected to be between 4 to 5 percent. The challenge in the short term would be therefore to shore up business sentiment, spur investment in productive activities and identify bottle necks that can be removed reasonably in short period of time.

The government has already made some quick moves to clear bottlenecks in some critical sectors such as coal and power and is also pushing forward project implementation in some key infrastructure sectors. With the easing of headline inflation, moderation in commodities prices in the international market, and revival of manufacturing performance in recent in the major economies, India’s industrial sector is expected to be better in coming years.

In its approach paper to the Twelfth Five Year Plan, the Planning Commission has projected growth rates of 9.8 per cent and 11.5 per cent in the manufacturing sector.
required to achieve 9 per cent and 9.5 per cent economic growth respectively. The NMP (National Manufacturing Policy) has envisaged even higher growth of 14 per cent per annum so as to take the share of manufacturing in GDP to 25 per cent and increase the absorption of labour in this sector from around 50 million as of today to more than 150 million by 2022.

4.2 Profile of Pharmaceutical Industry

The Indian pharmaceutical industry today is in the front rank of India’s science based industries with wide ranging capabilities in the complex field of drug manufacture and technology. Indian pharmaceuticals industry is a highly organized sector. Indian pharmaceutical sector plays a key role in promoting and sustaining development in the vital field of medicines. It boasts of quality producers and many units are approved by regulatory authorities in USA and UK. International companies associated with this sector have stimulated, assisted and spearheaded this dynamic development in the past 53 years and helped to put India on the pharmaceutical map of the world.

The pharmaceutical industry sector has grown from mere US $ 0.3 billion turnover in 1980 to about US $ 21.73 in 2009-10. The country now ranks third in terms of volume of production (10 percent of global share) and 14\textsuperscript{th} largest by value (1.5 percent of global share). Indian pharmaceutical sector growth has been fuelled by exports and its products are exported to a large number of countries with sizeable share in the advanced regulated markets of USA and Western Europe.

The pharmaceutical sector in India is highly fragmented with more than 20,000 registered units. It has expanded drastically in the last two decades. The leading 250 pharmaceutical companies control 70% of the market with market leader holding 7% of the market share. It is an extremely fragmented market with severe price competition and government price control.

The pharmaceutical industry in India meets around 70 percent of the country’s demand for bulk drugs. There are about 250 large units and 8000 small scale units which form the core of pharmaceutical industry in India (including 5 public sector units) which produce complete range of pharmaceutical formulations.
Following the de-licensing of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with as manufacturers are free to produce any drug duly approved by drug control authority. Technologically strong and totally self reliant the industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories an increasing balance of trade.

The pharmaceutical industry, with its rich scientific talents and research capabilities, supported by intellectual property protection regime is well set to take on the international market.

Indian pharmaceutical companies have been getting international regulatory approvals for their plants from agencies of USA, UK, Australia, South Africa etc. Some of the leading pharmaceutical companies in India are Cipla, Ranbaxy, Sun Pharma, Abott, Zydus Cadila, Alkem Laboratories, Pfizer, GSK India, Piramal Healthcare and Lupin.

Table 4.2.1. Performance of Pharmaceutical Industry (in cr)

<table>
<thead>
<tr>
<th>Years</th>
<th>Production</th>
<th>Sales</th>
<th>Exports</th>
<th>Imports</th>
<th>PAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>53.857</td>
<td>14.0</td>
<td>293.22</td>
<td>101.12</td>
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<td>2009-10</td>
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<td>69.575</td>
<td>13.5</td>
<td>475.55</td>
<td>162.88</td>
<td>55.65</td>
</tr>
</tbody>
</table>

(SOURCE: Annual Reports, Department of Pharmaceutical, Ministry of Chemicals and Fertilizers, Government of India).

The future of pharmaceutical sector in India is expected to reach US $ 55 billion in 2020 from US $ 12.6 billion in 2009. Due to the increase in the population of high income group, there is very likelihood that they will open a potential US$ 8 billion market for multinational companies selling costly drugs by 2015 as estimated in a report by Ernst & Young. The domestic sector companies are estimated to touch US$
20 billion by 2015. The healthcare market in India is expected to reach US$ 31.5 billion by 2020. The sale of all types of pharmaceutical drugs is expected in the country which stands at US$ 9.61 billion which is expected to reach around US$ 19.22 billion by 2012.

Though, the pharmaceutical sector of India has achieved a lot both at national and international level however steps are still needed to strengthen the pharmaceutical industry therefore Indian pharmaceutical companies need to attain the right product mix for sustained future growth. Core competencies will play an important role in determining the future of many Indian pharmaceutical companies in post product patent regime after 2005. Indian companies in effort to consolidate their position will have to increasingly look at merger and acquisition options of either companies or products. This would help them offset loss of new product options, improve their R&D efforts and improve distribution to penetrate markets.

Research and development has always taken the back seat amongst Indian pharmaceutical companies therefore in order to stay competitive in the future, Indian companies will have to refocus and invest heavily in R&D.

The Indian pharmaceutical sector also needs to take the advantage of the recent advances in biotechnology and information technology. The future of the industry will be determined by how well it markets its products to several regions and distributes risks, its forward and backward integration capabilities, its R&D, its consolidation through mergers and acquisitions, co marketing and licensing agreements.

4.3 Profile of Steel Industry

The steel industry of India is a significant contributor to the Indian economy. The economic growth of Indian economy depends upon the growth of the steel industry. Demand by sectors like infrastructure, real estate etc has put the Indian steel industry on the world map. The government of India opened up the steel industry to private investment as a result players entered into the industry thereby contributing to the economy.
Foreign direct investment and technology import is allowed up to a certain limit, existing units are being modernized and large numbers of green new steel plants have also come up in different parts of India using modern, cost effective state of art technology. The Indian steel industry enjoys the advantages of domestic availability of raw material and cheap labour. Steel industry of India has shown strong performance in recent past in terms of production, capacity utilization, exports and consumption.

The Indian steel industry is divided into public and private sector. Public sector comprises of integrated producers and secondary producers. Private producers are mini steel plants which make steel by melting scrap or sponge iron or a mixture of both.

**Highlights of Steel Industry in India**

1. Steel industry in India contributes two percent of India’s gross domestic product (GDP) and its weight age in index of industrial production (IIP) is 6.2%.

2. India is fourth largest producer of steel in the world after China, Japan and USA.

3. Consumption of steel in India is much higher at 14% as compared to global consumption of 6% in last fifteen years.

4. Intended steel capacity build up in India is likely to result in investment of Rs 5 to 10 lakhs crore in 2020.

5. Capacity for steel production expanded from 51.11 mtpa in 2005-06 to 78 mtpa in 2010-11.

6. Crude production of steel grew at a CAGR of 8% from 46.46 mtpa in 2005-06 to 69.57 mtpa in 2011-12.

7. Production of steel grew at a CAGR of 7% from 46.57 mtpa in 2005-06 to 66.01 mtpa in 2010-11.

Table 4.3.1. Performance of Steel Industry

<table>
<thead>
<tr>
<th>Years</th>
<th>Production</th>
<th>Sales</th>
<th>Exports</th>
<th>Imports</th>
<th>PAT</th>
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<td>2008-09</td>
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<tr>
<td>2009-10</td>
<td>58.437</td>
<td>60623</td>
<td>4.437</td>
<td>5.839</td>
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<tr>
<td>2010-11</td>
<td>65.839</td>
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<td>7.382</td>
<td>12891.31</td>
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<tr>
<td>2011-12</td>
<td>69.575</td>
<td>52062</td>
<td>3.461</td>
<td>6.798</td>
<td>8390.34</td>
</tr>
</tbody>
</table>

(SOURCE: Annual Reports, Ministry of Steel, Government of India).

The steel industry has made a rapid progress on strong fundamentals over the recent years getting all essential ingredients required for dynamic growth. The government is backing the industry through favorable industrial reforms while the private sector is supporting the steel industry by investments worth billion dollars. The industry stood tough times of economic slowdown to sustain its momentum of positive growth. Around 22 million capacity is expected to be commissioned in 211-2012 and 18.1 billion in 2012-2013 which will result in country’s total steel manufacturing capacity by 73%.

The industry is expected to maintain a healthy sales growth of 21.4% in 2011-2012 and 17.9% in 2012-2013. Strong demand for steel and huge capacity additions will push up sales volume by 12 to 14%.

4.4 Profile of Cement Industry

Cement industry in any country plays a major role in the growth of the nation. It is vital for meeting economy’s needs of housing and accommodation and necessary infrastructure such as roads, bridges, schools, hospitals etc. Hence, cement is one of the fundamental elements for setting up strong and healthy infrastructure of the
country and plays an important role in the economic development and welfare of the nation.

India is the second major cement producing country after China having a total capacity of around 230MT (million tones). There are 137 large and 365 mini cement plants in India. The demand for cement mainly depends on the level of development and rate of growth of the economy. There are no close substitutes for cement and hence the demand for cement price is inelastic.

The Indian cement industry is highly fragmented with the top few accounting for more than 50 percent of industry capacity. The rest is distributed among the large number of small players. Cement industry is being segmented regionally i.e. northern, central, western, southern and eastern. Southern region in the country is the biggest contributor in cement production and it has a large share in capacity with 92.11MT. India has a total capacity 226.90MT as on March 2010, which comprised of northern region 48.27MT, central region 26.01MT, eastern region 31.89MT, and western region 28.62MT.

The main cement producing states in India are Rajasthan, Andhra Pradesh, Tamilnadu, Madhya Pradesh and Gujarat. The capacity of the cement sector which was 29MT in 1981-82, rose to 219MT at the end of financial year 2009. Domestic demand plays a major role in the fast growth of cement sector. In fact the domestic demand of cement has surpassed the economic growth rate of India.

The cement consumption increased more than by 22% in 2009-10 from 2007-08. The production of cement in India grew at a rate of 9.1% during 2006-07. During 2009, the total cement production in India was 12.37MT. The cement companies are also increasing their productions due to the high market demand. The cement companies have seen a net profit growth rate of 85%. With this huge success, the cement sector in India has contributed almost 8% to India’s economic development.

The cement sector has also made tremendous strides in technological upgradation and assimilation of latest technology. Presently 93 percent of the total capacity in the industry is based on modern and environmentally friendly technology. The induction of advanced technology has helped the industry immensely to conserve energy and fuel and to save materials.
There are number of players prevailing in the Indian cement industry, in fact there are around 20 big names that account for more than 70 percent of the total cement production in India. Some of the major cement companies in India are ACC, Gujarat Ambuja, Grasim Cement, India Cements, Ultra Tech Cement, Ambuja Cements, Shree Cements, Jaypee Cements, Birla Corporation etc.

The cement sector is one of the main beneficiaries of the infrastructure boom, with robust demand and adequate supply, the industry has bright future. Cement industry has a long way to go as Indian economy is poised to grow because of being on verge of development. The cement sector is expected to witness growth in line with the economic growth because of the strong co relation with the GDP. Future drivers of cement demand growth in India would be the road and housing projects. The performance of the cement industry

<table>
<thead>
<tr>
<th>Years</th>
<th>Production</th>
<th>Sales</th>
<th>Exports</th>
<th>Imports</th>
<th>PAT</th>
</tr>
</thead>
<tbody>
<tr>
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<td>5866.33</td>
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<td>2009-10</td>
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<td>398.21</td>
<td>37.44</td>
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</tr>
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<td>2010-11</td>
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<tr>
<td>2011-12</td>
<td>216.28</td>
<td>5288.33</td>
<td>475.55</td>
<td>162.88</td>
<td>6123.51</td>
</tr>
</tbody>
</table>

(Source: Cement section, Department of Industrial Policy and Promotion, Government of India).

It is expected that the cement industry players will continue to increase their annual cement output in coming years and India’s cement production will grow at a compound annual growth rate (CAGR) of around 12 percent during 2011-12-2013-14 to reach 303 million metric tones, according to the Indian cement industry forecast 2012. Cement Manufacturing Association (CMA) is targeting to achieve 550MT capacities by year 2020. A large number of foreign players are also expected
to enter the sector in the coming years as 100 percent foreign direct investment (FDI) is permitted in the sector.

4.5 Profile of Petroleum Industry

Petroleum sector plays an influential part in country’s economy and helps in the economic and welfare development. The petroleum industry in India contributes 15 percent in the total GDP of India. After the inception of the liberalization-privatization-globalization (LPG) in the month of July 1991, the government allowed this sector to go into private as well as government joint ventures. The deregulation process in the Indian petroleum industry got a boost in the year 1997 when it was decided that the process of liberalization and deregulation would be accelerated in this industry and all regulations would go away from the month of April in the year 2002.

The government eased the stringent regulation process in the petroleum sector, this gave a tremendous boost to this industry, and the industry began to grow at a tremendous pace. The production of petroleum and petroleum products also showed a significant rise. After the liberalization and privatization the overall economy of India grew, also the demand for petroleum products increased at an annual rate of about 5.5%.

The petroleum sector in India is particularly favorable to foreign investment because the industry is one of the fastest growing segments and it has shown a staggering growth rate of 13 percent in the recent past, the petroleum industry in India boasts technology of international standards, easy availability of infrastructure at very cheap rates. High demand for petroleum products and increased spending habits of the middle class people all these factors make investment in Indian petroleum sector an attractive proposition for foreign investors.

The foreign trade in petroleum and petroleum products in the recent past have registered significant growth; it has attracted new foreign investments. Some of the main petroleum products that are manufactured for trade foreign countries are naphtha, ethane, kerosene, petroleum gases, gas oil, and propane and distilled crude oil.
Table 4.5.1. Performance of Petroleum Industry  (in cr & mn tn)

<table>
<thead>
<tr>
<th>Years</th>
<th>Production</th>
<th>Sales</th>
<th>Exports</th>
<th>Imports</th>
<th>PAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>33.99</td>
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<td>2009-10</td>
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</tr>
<tr>
<td>2011-12</td>
<td>37.71</td>
<td>122055</td>
<td>59.13</td>
<td>189.88</td>
<td>20469.74</td>
</tr>
</tbody>
</table>


The petroleum companies in the petroleum sector are one of the major revenue earning sectors of the Indian economy. This is capital intensive and since the demand for petrol is always high in the market, the Indian petroleum companies have been playing significant role. Some the major petroleum companies in the petroleum sector are ONGC, IOCL, GAIL, BPCL, HPCL, Reliance Industries, Reliance petroleum etc.

The future of the Indian petroleum sector has good potential but it needs developmental activities to strengthen it self. Indian petroleum sector has to compete for conventional energy sources. As per the latest CII KPMG analysis, the energy industry will help in expansion of the petroleum sector by bringing investment worth US$ 120 billion- US$ 150 billion in the next three to five years. By 2012 Indian petroleum industry are estimated to accomplish US$ 35 billion to US$ 40 billion.

4.6 Profile of Textile Industry

The textile industry plays very important role in Indian economy. It is one the leading textile industries in the world. Though it was predominantly unorganized industry a few years back but the scenario started changing after the economic liberalization of Indian economy. The opening up of the economy gave the much needed thrust to the Indian textile sector.
The textile sector in India contributes about 14 percent to industrial production, it contributes 4 percent to the country’s gross domestic product (GDP) and 17 percent to the country’s export earnings. Indian textile industry largely depends upon the textile manufacturing and export. India earns about 35 percent of its total foreign exchange through textile exports.

The textile sector in India continues to be the second largest employment generating sector. Textile sector provides direct employment to 35 million people including substantial segments of weaker sections of the society with a very low important intensity of about 1.5 percent only. It is estimated that the industry will generate 11 million new jobs by 2012.

The Indian textile industry comprises of different segments which are cotton textiles, silk textiles, woolen textiles, handlooms, jute textiles and man made fibres.

Cotton is predominant fabric used in the Indian textile industry. Nearly 60 percent of the overall consumption in textile and more than 75 percent production in spinning mills are of cotton. India is one of the world’s largest producer of cotton with nearly nine hectares million under cultivation and an annual crop of around 3 million tones.

Wool industry in India is primarily located in northern states of Punjab, Haryana, and Rajasthan, these states account for more than 75 percent of production capacity with both licensed and decentralized players. There are more then 700 registered units in this sector provide employment to approximately 1.2 million people. The large players in this sector have made significant in roads into the world markets.

Indian silk industry is the second largest producer of silk in the world contributing about 18 percent to global production. The value of silk produced in India is about over US$ 1.78 billion. India also exported over US$ 190 million of silk goods and over US$357 million of silk yarns, fabrics and made up growing demand for traditional silk fabrics and export of handloom products have spurred growth in the silk demand.

Jute industry occupies an important place in Indian economy, being one of the major industries in eastern region particularly in west Bengal. It supports nearly four billion
families besides providing employment directly to 260,000 industrial workers and livelihood to another 140,000 people in the tertiary sector and allied activities.

The handloom industry is based on Indian traditional crafts, it employs nearly 7.5 million people and contributes 13 percent to cloth production. Handlooms receives preferential policy treatment as they are highly labor intensive and viewed as a source of employment and supplementary income for 6 to 7 million people in over 3 million weavers households.

Man made fibres include manufacturing of clothes using fiber or filament synthetic yarns. It is produced in large power looms factories. They account for the largest sector of the textile production in India. This sector has a share of 62 percent of India’s total production and provides employment to about 4.8 million people.

Indian textile sector is one of the leading industries in the world. Currently it is estimated to be around US$ 52 billion and is also projected to be around US$ 115 billion by 2012. The current domestic market of textile in India is expected to increase to US$ 60 billion by 2012. The textile export share of India is also expected to increase from 4 to 7 percent within 2012.

<table>
<thead>
<tr>
<th>Table 4.6.1 Performance of Textile Industry (in cr &amp; mn sq m)</th>
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<tbody>
<tr>
<td><strong>Years</strong></td>
</tr>
<tr>
<td>2008-09</td>
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<tr>
<td>2009-10</td>
</tr>
<tr>
<td>2010-11</td>
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<tr>
<td>2011-12</td>
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</tbody>
</table>


The Indian textile industry is in a stronger position than it was in the last six decades. The industry which was growing at 3 to 4 percent during the last six decades has now accelerated to annual growth rate of 9 to 10 percent. The Indian textile sector is also
globally well placed as the share of Indian global textile trading increased to 7 percent in five years.

The major companies in the Indian textile sector include Bombay Dyeing, Grasim industries, JCT limited, Welspun India, Alok Industries, Arvind Mills, Raymond Limited, and Century Textiles etc.

The future of Indian textile sector is bright. There is a large scope of improvement in the textile industry of India as there is a huge increase in personal and disposable income among the Indians after the 1991 liberalisation. There is also a large growth of the organized sector in the Indian textile industry. The foreign brands along with collaboration of Indian companies are establishing business in India.

The government has taken several steps to strengthen the textile sector of the country like it has introduced the integrated textile parks scheme which envisages the creation of textile parks in the public and private partnership. To facilitate the technological upgradation in this sector the government launched the technological upgrading fund scheme (TUPS). This scheme provides for reimbursement of 5 percent interest paid on term loans for technological upgrading of textile machinery. The 11th five year plan (2007-2012) has projected Indian economy securing a 7 percent share in global textile trade by 2012.

Ministry of Textile expects the technical textile sector to grow by 11 percent on a year to attain a market size of US$ 14.8 billion by 2012-13 from current size of US$ 9.9 million.

The textile sector has established its supremacy in cotton based products especially in readymade garments and home furnishing segments, these two segments will be key drivers of growth for Indian textile industry.

Investments in textile are expected to reach US$ 35 billion by 2011. Foreign direct investment is 100 percent freely allowed in spinning, weaving, garments and knitting sectors under the automatic route for both new ventures and existing companies except in cases where industrial licensing is required from the government.
4.7 Concluding Remarks

To conclude from the above discussion, it can be concluded that the above mentioned different sectors or industry are major contributors to the industrial development and GDP of Indian economy. The pharmaceutical industry is growing at a growth rate of 13% per year and it has a potential to grow at an accelerated CAGR of 15 to 20% for next ten years. The cement industry is growing at a CAGR of 8%, the industry also has a high potential for growth in coming years. The steel industry contributes 2% to the GDP of Indian economy and it is one of the major contributors in the industrial development of the country.

The textile industry contributes 4% to the GDP and 14% to the industrial output, the industry is set for strong growth buoyed by both rising domestic consumption as well as export demand. The petroleum industry has grown at a growth rate of 13% in recent times and contributes 15% to GDP of economy and is one of the harbingers of huge economic growth of India and the industry is favorable to foreign investment by bringing investments worth US $120 billion to US $150 in next 3 to 5 years.