



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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EMERGING SME CLUSTERS IN INDIA – A STUDY

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ABSTRACT

The paper examines the role of SME clusters in the development of the SMEs of India. It starts with historically; clustering is a known phenomenon in Indian context and has played a significant role in the nation's industrial growth and diversification and now the evolving phase of the same. Study includes the origin of cluster and how this approach concept was introduced in Indian context with the recent emerging trends of New SME clusters. The scope of study is confined to India's emerging new trends in SME cluster but its substantial contribution to the IIP-industrial output & production & overall GDP. The genesis of cluster development was brought into limelight by Gol who had constituted an Expert Committee on Small Enterprises in 1996 and UNIDO along with Ministry of Small Scale Industries who successfully implemented this concept. So the government – tariff rebates, subsidies boosting this sector & commercial banks how they also help in funding aspects. For the analysis part of the report two distinct clusters were studied. The sector chosen was the auto components sector. This industry is dominated by SMEs. Under this, Pune cluster was analysed. Key findings would include like private players constitute the majority in the ownership with 41% of the companies. Majority of the exports are to the American market. The challenges faced by them include infrastructure, power supply, labour unavailability, increasing tariffs and further on. Other sector under study is IT/ITes of Bangalore which has brought India on global platform by Bangalore being deemed as Silicon Valley. The key findings include how tax holidays, global IT companies venturing in this city, better infrastructure & climatic conditions being contributing more & more this sector to grow here. This is a descriptive & analytical study based on secondary data.

KEYWORDS

Clusters, Emerging Market, Industrial Growth, IT & ITES, SME.

INTRODUCTION

HISTORY

"Clustering" as an engine of growth was noticed internationally in the well-networked clusters in developed countries especially in Italy. This realization has led to increase interest and research in clustering as well as attend to replicate through planned intervention in the developing countries including India.

The concept of cluster must have emerged from the well known maxim "birds of same feather, flock together". The process of clustering envisages coming together and acquiring some sense of economies of scale as well as acquisition of competitive advantage. **Clusters** are agglomerations of interconnected companies and associated institutions. Firms in a cluster produce similar or related goods or services and are supported by a range of dedicated institutions located in spatial proximity, such as business associations or training and technical assistance providers. Cluster is a sector and geographic concentration of MSMEs faced with common opportunities and threats. The genesis of cluster development was brought into limelight by Govt of India, who constituted an Expert Committee on Small Enterprises in 1996 headed by Prof Abid Hussain. He therefore, propagated the concept of clusters as it would be the centrepiece of the new approach wherein the public private partnership would provide strong support systems for small scale enterprises.

The Ministry of Small Scale Industries, Government of India through its successful collaborative effort with UNIDO and also independently on its own initiated and completed a series of cluster development initiatives with a holistic approach all over the country. Keeping in view this Ministry had started with the adoption of 21 clusters across the country under "Small Industries Cluster Development Programme". The objectives of the cluster approach is to cover a comprehensive range of issues related to technology upgradation, quality improvement, improvement on productivity, product diversification, skilled upgradation, market development, export market etc.

In both industrialized and developing countries there is increasing awareness that isolation, rather than size, is the key obstacle, preventing SMEs boost their competitiveness. Groups of firms located in close proximity (also known as clusters) have proved to be capable of rapid economic growth, sustainable leadership in export markets, significant employment generation and/or preservation of high-value-added jobs, sustained technological progress. Evidence from both developed and developing countries testifies to the unique opportunity that SME cluster development provides for reconciling the objective of economic development, environmental sustainability and social equity.

In the many dynamic clusters to be found around the world, these features are the outcome of the co-operative linkages both between local firms and among local firms and business partners (such as suppliers of plant & machinery, producers of raw materials, testing laboratories, financial institutions, industrial associations; technical and management consultancy organisations, training institutions and local government agencies).

Unfortunately, in many developing countries, cooperation within clusters is hard to find. Very low levels of trust, latent conflicts, and absence of suitable discussion foray are the unequivocal markers of an "under-performing" cluster. Reverting under-performance requires prolonged efforts (sensitisation, trust building, conflict resolution, etc...) that the private sector will not undertake without some outside facilitation and support from government. The external assistance of a development institution, based on public-private sector partnership, can therefore greatly facilitate the organization and development of "underachieving" SME clusters.

The competitiveness of firms not only depends on the functioning of suppliers and buyers within a cluster, but also and often most importantly, on the entire chain at the national and global level. The value chain approach helps to identify all the enterprises that contribute to the production of a good or service within and beyond a cluster and shows which actions are needed to support these enterprises.

Against this background, UNIDO has developed since 1993 an approach to help governments and the private sector to co-operate in the design and implementation of programs to support "underachieving" SME clusters. The program draws lessons from the experience of successful clusters and UNIDO's technical co-operation projects in many developing countries such as India, Pakistan, Thailand, Honduras, Jamaica, Mexico, Nicaragua, Morocco, Nigeria, Senegal, Tunisia and Zimbabwe.

SME – SMALL & MEDIUM ENTERPRISE & CLUSTER - DEFINITONS & CONCEPTS

Micro, Small and Medium Enterprises Development Act 2006 (India) defines Micro, Small and Medium Enterprises based on:

- (a) Investment in Plant and Machinery in respect of manufacturing enterprises, and
(b) Cost of equipments in respect of Service Enterprises

CLASSIFICATIONS	MFG / SERVICE	INVESTMENT IN PLANT & MACHINERY / EQUIPMENTS
MICRO LEVEL – I	MANUFACTURING	Up to Rs.5 lacs
	SERVICE	Up to Rs.2 lacs
MICRO LEVEL – II	MANUFACTURING	Rs.5 lacs to Rs.25 lacs
	SERVICE	Rs.2 lacs to Rs.10 lacs
SMALL ENTERPRISES	MANUFACTURING	Rs.25 lacs to Rs.500 lacs
	SERVICE	Rs.10 lacs to Rs.200 lacs
MEDIUM ENTERPRISES	MANUFACTURING	Rs.500 lacs to Rs.1000 lacs
	SERVICE	Rs.200 lacs to Rs.500 lacs

CLUSTERS IN INDIA

A cluster is a sector targeted geographical concentration of micro and/ or small & medium enterprises (MSMEs/MSMEs), service providers and institutions faced with common opportunities and threats. In other words, a cluster of MSMEs is a concentration of economic enterprises, producing a typical product/service or a complementary range of products/services within a geographical area. The location of such enterprises can span over a few villages, a town or a city and its surrounding areas. Thus a cluster of MSMEs, hereafter referred to as "cluster", is identified by the 'product/service' that the micro and small enterprises produce and the 'place' where the enterprises are located. Foundation for MSME Clusters assists institutions in undertaking cluster based local area development, effectively and inclusively in developing and transition economies.

FEATURES OF CLUSTER

- Give rise to collective benefits, for example through the spontaneous inflow of suppliers of raw materials, components and machinery or the availability of workers with sector specific skills.
- Favour the creation of providers of specialised technical, administrative and financial services.
- Create conducive environment for the development of inter-firm co-operation as well as of co-operation among public and private institutions to promote local production, innovation and collective learning.

CLUSTERS: SOME FACTS

- Around 636 SME (industrial) and 6000 artisan/micro enterprises clusters are estimated to exist in India.
- The micro and SME clusters in India are estimated to have a significantly high share in employment generation.

INITIATIVES

There have been various initiatives undertaken by the government. One such was recently sanctioned by the Cabinet Committee on Economic Affairs (CCEA). It aimed at enhanced allocation for the implementation of the Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), which has been designed for the development of SMEs in the country.

This has been given approval so as to it can facilitate small enterprises with opportunities to increase production, improve competitiveness and step-up exports. Approval of modifications in the guidelines of the SME cluster programme will include more small enterprises for developmental interventions, thereby enabling them to raise productivity, increase turnover, besides helping them create more jobs and enhance exports," said an official statement issued after the CCEA meeting. A sum of Rs 303.63 crore has already been earmarked by the government for the implementation of the SME Cluster Development Programme in the Eleventh Five Year Plan Period (2007-12). Moreover, maximum project cost for the establishment of a Common Facility Centre (CFC) for SMEs has been increased from Rs 10 crore to Rs 15 crore, while project cost for soft interventions and infrastructure development has also been raised.

In a recent article, given in government, the government of India has identified more than 3000 SME clusters of artisan-specific, village and small enterprises in the country and has taken up 1,150 such clusters for intervention and improvement

It has also been said that efforts would be made to undertake a programme for "Twinning" of Indian SME clusters with similar SME clusters in Italy. As the Micro SME sector forms an integral part of the industrial resurgence of India the credit policy has helped in linking the Indian MSMEs with almost 55,000 bank branches and has given loan of over \$55 billion.

SME IN INDIA

The number of SMEs in India is estimated to be around 13 million while the estimated employment provided by this sector is over 31 million. The SME sector accounts for about 45 per cent of the manufacturing output and over 40 per cent of the national exports of the country.

THE ROLE OF SME SECTOR IN NATION DEVELOPMENT

Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing 45% of the industrial output, 40% of exports, 42 million in employment, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors.

The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Aviation, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors.

KEY CHALLENGES TO SME SECTOR

Problems are there but if the sort out solution also is not implemented then it becomes even bigger problem. Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government Departments, Banking Sector, Financial Institutions and Corporate Sector, which is a handicap in becoming more competitive in the National and International Markets and which needs to be taken up for immediate and proper redressal. MSME sector faces a number of problems - absence of adequate and timely banking finance, limited knowledge and non-availability of suitable technology, low production capacity, ineffective marketing and identification of new markets, constraints on modernisation and expansions, non availability of highly skilled labour at affordable cost, follow up with various agencies in solving regular activities and lack of interaction with government agencies on various matters.

IMPACT OF RECESSION

The Indian SME was pretty much insulated from the recession due to the fact that they did not have any capital expenditure or big spends. Nevertheless, many were affected on account of serious fall in number of customers, order quantities and values coupled with increasing difficulties in managing international customers and increased competition from other low cost producing nations during such time.

However, most industries including major SME clusters experienced serious fall in number of customers, order quantities and values coupled with increasing difficulties in managing international customers and increased competition from other low cost producing nations since the economic crisis set in late last year. Another article said some 5 lakhs units were under deep peril.

Talking about the textile industry, it was the first industry that came out of recession. The stimulus package which was announced within 72 hours during recession helped the industry to weather the storm of recession. Since this industry is labour intensive sector it gives livelihood to lakhs of workers who would have gone under BPL if the matter was not controlled.

According to a survey by Plantronics, a hardware company based in California, more than 7,000 SMEs have shut shop in Taiwan over the past two years on account of shrinking demand. Two out of three SMEs are likely to cut their financial turnover within the next six months while three out of 10 are expecting to fail by autumn 2009.

LITERATURE REVIEW

Fabio Russo, through this article talks about the importance of cluster development. According to the evidence the SME are in a better position while operating in organized clusters and have demonstrated to be particularly innovative and able to compete successfully in the global economy. Various efforts of UNIDO have been mentioned. The article focuses on cluster programme in India. It highlights and suggests the role of an "external agent" which can act as a catalyst to facilitate the emergence of cluster. The article also provides bird's eye view regarding the problem faced by these clusters and also the appropriate solutions to them.

SOURCE: Fabil Russo (July 1999) "Strengthening Indian SME Cluster UNIDO's Experience", Project: US/GLO/95/144

According to an article in tradeindia.com clusters have played a key role for the survival and excellence of small and medium enterprises. It has led to them achieving national and international standard in cost, quality and delivery. But still there is immense scope so as to regulate the cluster development. The council had decided to give high priority to sectors such as leather and footwear, textile and garments, auto components and electronics. The core problems that were identified were the need to upgrade technology and provide them services at affordable cost. The other problem was the mounting imports from China which had increased from Rs. 9000 crores in 2003 to Rs. 125000 in the year 2007. The area of concern here was that about 75% of these imports were goods manufactured in India by SMEs.

SOURCE: Financial Express, "Clusters essential for SMEs' survival: govt."

The author of this article focuses on the key markets of the textile industry. These constitute mainly the US, UK and Europe. Due to the mounting recession the Indian SME textile were eyeing emerging markets such as Japan, South Africa and the Middle East. There had been drastic fall in the volumes of quantity ordered. These factors were coupled with the hostile trading conditions, protectionism practiced by the US and the European countries. Targeting such markets would not be a child's play as the SME would need to modify their conventional business models and aim at maintaining high quality standards to carve a niche in such emerging market.

SOURCE: MSME (2009), "Japan calling Tirupur Textile SME Exporters"

Wani, V.P. (1993) conducted a study on "Quality Consciousness in Small Scale Sector". According to him Small Scale Entrepreneurs should be quality conscious about their product. Today productivity means goods of better quality at less cost, which has less chance of rejection, good profitability with less alteration.

Chadha Vikram (1995) found that the use of outdated technology by SSI Units is the critical obstacle in the way of growth and modernization of the small industries. Small Industries can be modernized by improving productivity, enhancing quality, reducing cost and restructuring product mix through up-gradation of technology and enlarging the skill of the workers. The liberal fiscal and monetary incentive should be given to these units so that they can carry out R & D particularly in technology intensive industry.

The author in this article propagates the use of ICTs (Information and Communication Technologies), into the working of the SMEs. They are regarded as generic and very pervasive technologies. It can be used in varied activities such as inventory management, production processes, and marketing and support services.

This particular article highlights the importance of the SME sector. Shri Montek Singh Ahluwalia had rightly said that, if India wants to achieve a GDP growth of 8.5%, then focus must be towards the SME Sector. The three important factors which are infrastructure, access to Capital and skill development needs prime attention in order to empower and support the SME which are the backbone of the Indian Economy. SMEs play an important role as a growth engine of the Indian economy by putting efforts to achieve 9% growth, contribute 40% of the total industrial output, 34% of the export and employ 30 million people and adding 1 million jobs in year. The government has been working to provide the additional capacity of power. Talking about access to capital, there has been a surge in modes of disbursements of funds. There are a number venture capital funds and private equity operations available including investors from abroad. A regulated capital market also shows that the Indian fundamentals are on a strong footing. Government has also taken initiatives to set up "Skill Development Council", which will provide assistance in enhancing the skills.

SOURCE: Conclave on "Empowering India SME's for 2020 - Opportunities and Challenges" - August 23, 2008

D & B SME Cluster Series – 2009 (Bengaluru) –(Survey report)

D & B SME Cluster Series along with IDBI – 2008 and also Report of 2009 (PUNE) –(Survey report)

NEED FOR STUDY

SME is one such vehicle which covers a huge geographic spread and includes many people under its gamut. Stating some facts, the number of SMEs in India is estimated to be around 13 million which provides employment to over 31 million people. The SME sector accounts for about 45 per cent of the manufacturing output and over 40 per cent of the national exports of the country. As SME is an integral part of our economy, through this study attempts will be made to highlight the growth and also contribution of the SME with specific reference to the clusters. The study pertaining to the Emerging trends in this sector in India need more emphasis as this sector if given push can contribute further to growth and intensification of Industrial output as well. The study can bring in new areas where SME & cluster development so that further boost in terms of policy framework and better understanding to focus on for future growth scenarios.

RESEARCH OBJECTIVE

- To get an insight into the working of the SME through the cluster development. This approach has been adopted from Italy as they were the pioneers.
- To study the impact of recession on the Indian SME- how they were affected and the measures taken up by them to counter this problem
- Various initiatives undertaken by the Government to enhance and develop the Indian SME and also towards cluster development.
- To study about Pune – SME Cluster of Automotive industry and IT/ITes – Bangalore Cluster

DATA AND METHODOLOGY

DATA COLLECTION

The report has been compiled using of the secondary data. No primary source was used due to the nature of the research done. Data was gathered using different sources out of which internet formed the major source. Various government websites along with research papers were referred.

METHODOLOGY

The methodology involved the extensive study of the Indian SME along with the cluster development approach which was incorporated. Attempts have been made to study two different clusters pertaining to different sectors, spread across different geographic area.

It is viewpoint based and Analytical study

In IT/ITes we have studied the Bangalore, Karnataka (State)

- Role of state government in boosting this sector
- Nature of the type of companies setting up their facilities – BPO/KPO/LPO & so on

Coming to the auto components cluster, Pune cluster was chosen for the study and it consists of:-

- Overview of the SME auto component sector
- Pune Cluster with details on different parameters.

LIMITATIONS

- Only few clusters upcoming / growing sectors could be examined
- No personal interaction with the cluster studied as the report was drafted using primarily the secondary source of data
- Unavailability of the latest statistics

SCOPE FOR FURTHER STUDY

- In order to get in an in-depth knowledge more clusters across varied sectors should be studied
- An analysis of the Indian SME should be done vis-à-vis global context & specially other Emerging markets comparison is again further required

BANGALORE IT/ITes CLUSTER OVERVIEW

Bengaluru is situated in south east Karnataka and is the capital of the state. It is the fifth largest metropolitan area in India and is also known as the IT capital of India. In 1986, the state government bifurcated Bengaluru district into Bengaluru urban and Bengaluru rural for better administration and governance. Bengaluru urban area is spread across 2190 sq km and the latter is spread across 5815 sq km. In FY07, the GDP of Bengaluru at Rs. 591.23 billion accounted for 29.4% of the GDP of the state, which was Rs. 2009.22 bn. The population of Bengaluru, which was 6.53 mn in the Census 2001, is expected to reach 8.9 mn by 2011.

TABLE 1: BENGALURU – BASIC STATISTICS

	Population	Literates	Literacy Rate (%)
Male	3426599	2663055	87.92
Female	3110525	2119510	77.48
Total	6537124	4782565	82.96

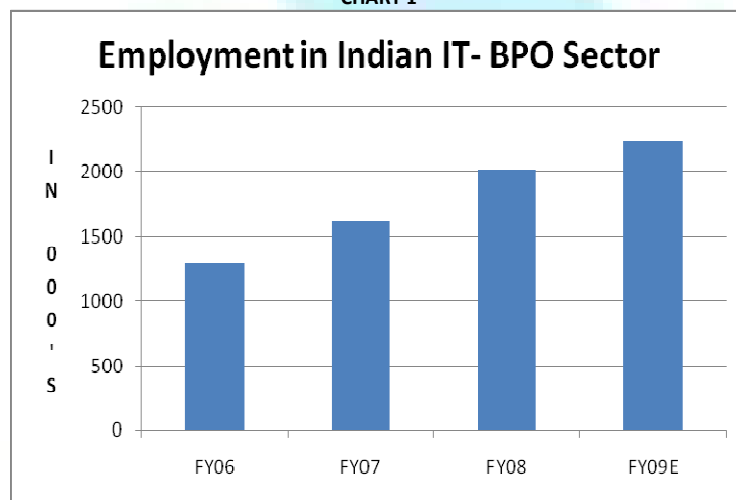
Source: census 2001

EMPLOYMENT STATISTICS

According to the fifth economic Census 2005 data on employment, Bengaluru employed 1.29 mn persons across various sectors and accounted for 19.66% of the total persons employed in the state.

The number of persons employed in the Indian IT – BPO sector grew from 1.3 mn in FY06 to 2.0 mn in FY08 at a CAGR of 24.7% and this number is expected to grow up to 2.2 mn in FY09, according to NASSCOM. According to the Department of IT, BT, and S&T of the Karnataka government, Bengaluru employs 550000 IT professionals, who form 1/3 rd of the total IT professionals in India. Further, the potential for employment in the IT sector of Karnataka is expected to reach 1 mn by 2010, according to these departments.

CHART 1



Source: NASSCOM

GOVERNMENT INITIATIVES

Karnataka was the first state to announce an IT Policy in 1997, and this initiative acted as an important catalyst for the growth of the IT industry in the state and particularly in the city. The government undertook the following initiatives under this policy:

- Incentives were offered in areas of cost of land, registration charges, FAR zonal regulations for companies that created employment in the IT industry. New companies that provide employment to more than 250 persons in Bengaluru and 100 persons in other areas are also eligible for these concessions.
- Some other state level incentives were: entry tax exemption, power tariff concession and quick clearance from the Pollution Control Board.
- The government established the STPI, Electronic City and ITPL at Whitefield. This nodal agency for the software industry provides ready office space for IT industries.
- In the State Budget 2009-10, Rs 30 bn was allocated for the development of Bengaluru city.

KARNATAKA INDUSTRIAL POLICY 2009-2014

In 2009 the Karnataka government came out with a new industrial policy for 2009 -2014. Under this policy, Bengaluru district was divided into four zones: Anekal, Bengaluru (North), Bengaluru (South), Bengaluru (East) for administering packages of incentives and concessions. Some important policy measures announced by the government under this policy are:

- Development of sector –wise industrial zones for optimal utilisation of local natural and human resource to minimise migration of people to urban centres.
- To provide world class infrastructure to investors like all weather road, uninterrupted power supply, adequate water, warehouse and logistics facilities, and connectivity through railways/ports. This sort of ready to use infrastructure enables investors to operate on a plug and play concept.
- Simplification of land acquisition procedures with emphasis on inclusive development.
- Initiatives of the investors in developing private industrial areas/ estates either in PPP mode/ individual entrepreneurs/ companies/ co-operatives will be encouraged with a supportive package.

SPECIAL ECONOMIC ZONES: CATALYST OF GROWTH

SEZs have played a major role in the development of small industries across all sectors in the country. As on June 2009 there were a total of 322 notified SEZs, 578 formally approved SEZs and 146 SEZs having in principle approval in India. The IT/ ITeS sector accounted 61% of the formally approved SEZs.

These SEZs have created innumerable benefits to the industry in terms of bringing in more exports, creating employment and ensuring infrastructure development. The total exports of the IT/ITeS SEZs in Karnataka are estimated at Rs. 18.39 mn for FY09 as compared to the actual export revenue of Rs. 12.45 bn in the previous year. As on March 2008, the total employment (includes direct and indirect) in the IT/ITeS SEZs was 49878 and accounted for over 90% of the total persons employed in SEZs across all sectors in the state. The various incentives offered by the central and the state government to set up units in SEZs are as follows:

- Duty-free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100% income tax exemption on export income for SEZ units for the first 5 years; 50% for the next years thereafter, and 50% of the ploughed back export profit for the next 5 years.
- Exemption from minimum alternate tax.
- ECB by SEZ units up to US\$ 500mn in a year without any maturity restriction through recognised banking channels.
- Reinvestment Allowance to the extent of 50% of ploughed back profits.

CLUSTER TRENDS

Here we understand with the functioning of the small and medium enterprises (SME) in the ITes industry in Bangalore and the operational structure and business practices of these SMEs. The IT/ITeS Industry in Bangalore is considered to be the headquarters of the Indian IT/ITeS industry and most of the industry majors like Infosys, Wipro, Accenture, IBM are present in the city.

In line with the vision to make Bangalore the Silicon Valley of the East, the Karnataka government has provided good infrastructure to the global IT and ITeS players by establishing IT parks such as STPI, the ITPL and Electronic city. Bangalore based ITeS companies provide a whole gamut of services from voice and non-voice customer support and verification to high-end research and analytics work.

CLUSTER DYNAMICS

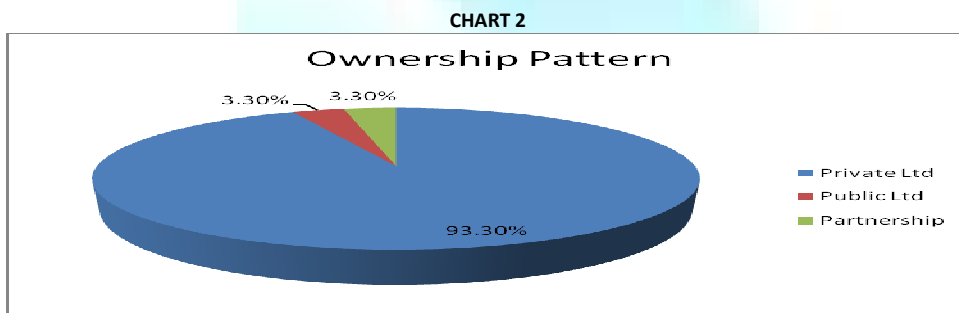
The following key reasons ensure Bangalore’s popularity as the IT/ITeS hub:

1. Abundance of good quality higher education institutes
2. An intelligent and young population & very techie skilled population
3. Good infrastructure in terms of road and power supply
4. Well established IT parks to set up business – SEZ benefits
5. State government initiatives - Business friendly government policies
6. Well established presence of Indian and global IT companies in the city

(D&B Survey Report – SME Cluster series 2009) As mentioned above the information on this part of study pertaining to the IT/ITes & BPO SME sector of Bangalore, Dun & Bradstreet (D&B) conducted a sample survey of 30 companies that earned a total income of less than Rs10million in the year ended March 2009.

OPERATIONAL HIGHLIGHTS

Most SME companies in the ITes/BPO sector in Bengaluru that participated in the survey invest limited capital in plant and machinery; according to the surveyed companies have investments below Rs. 1 mn in machinery, as most offices use computers and other facilities on a long-term lease basis to keep their operational costs low.

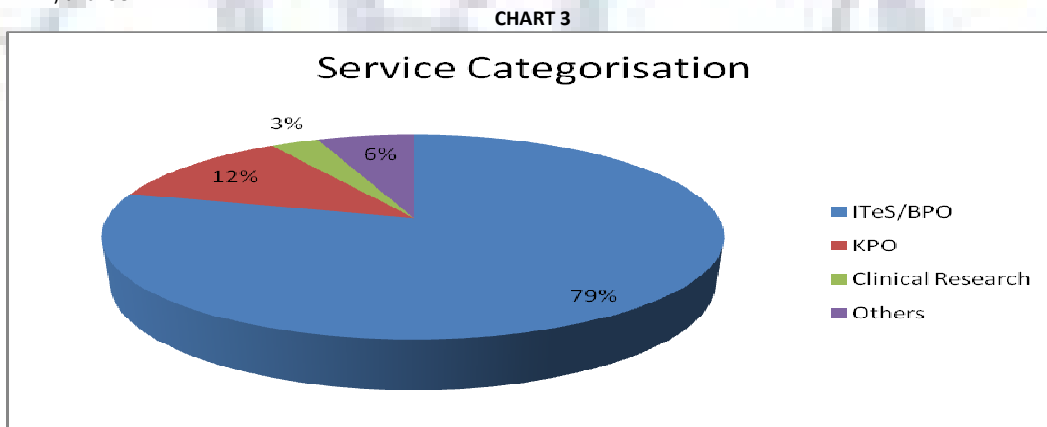


Source: D&B Survey Report – SME Cluster series 2009

Over 93% of the companies operating in Bengaluru in the SME ITes/BPO sector are private limited companies. A majority of these companies were started by first-time businessman. Further, over 95% companies had a total income below Rs 5mn as on March 2009.

QUALITY CERTIFICATIONS

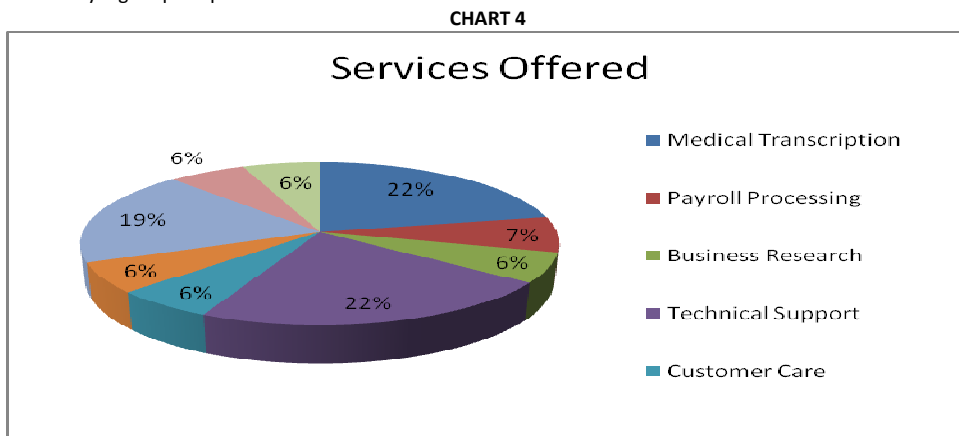
Quality certifications play an important part in the ITes/BPO industry, however, the survey revealed that majority of the participatory companies were yet to be accredited with any quality certification; in fact, only 33% companies had met the certification requirements such as the Health Insurance Portability and Accountability Act(HIPAA) and ISO.



Source: D&B Survey Report – SME Cluster series 2009

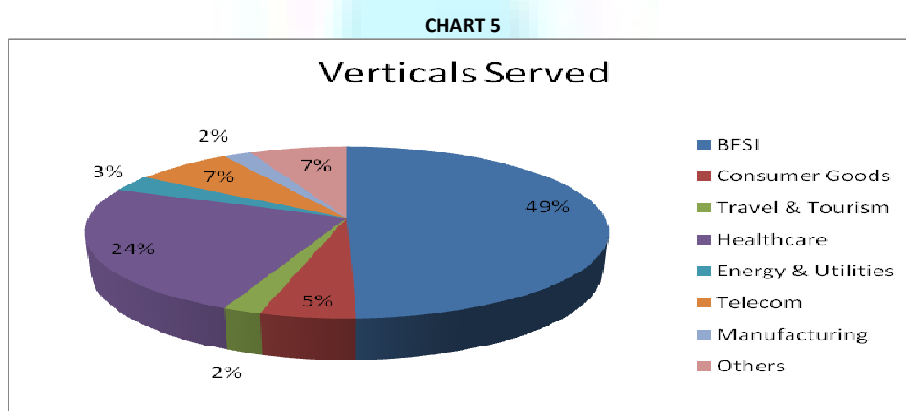
Traditional BPO services emerged as the most popular service line (79%share) in the total range of services offered. These include medical transcription, technical support. Document management, payroll processing and customer care. KPO (12% share) and clinical research (3% share) are the other prominent

services. Due to increasing competition and the constant pressure on margins, analytical work, such as KPO and clinical research, have gained popularity as these services are offered at substantially higher price points.



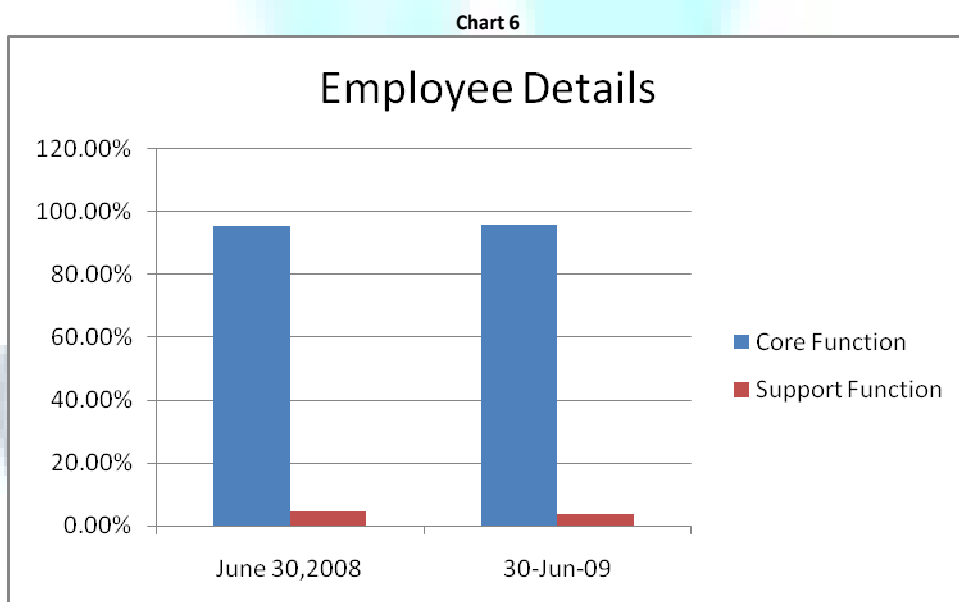
Source: D&B Survey Report – SME Cluster series 2009

On a cumulative basis, medical transcription and technical support services turned out to be the most sought after services offered by the ITes/BPO SMEs (22% of the surveyed companies provided these services) and document management services emerged as the second most sought after 19%.



Source: D&B Survey Report – SME Cluster series 2009

The BFSI vertical emerged as the most favoured vertical as it had a 49% share among all the verticals served by the surveyed companies. The healthcare and telecom sectors, which have been growing at an impressive rate, are fast emerging as the other favoured verticals.



Source: D&B Survey Report – SME Cluster series 2009

The economic recession & downturn for the Indian IT seemed to have affected employees deployed in support departments such as HR, finance and IT more than the ones employed in core ITes functions. The strength of employees in the support staff decreased by a remarkable 14.0% which is alarming to know.

AUTO INDUSTRY STRUCTURE – INDIA AS A WHOLE

The robust growth in the overall GDP rate can easily be related to the industrial output growing at a faster pace in which we understand the contribution of auto & its components remains as huge. The total turnover of the Indian auto components industry grew at a CAGR of 27.23% during FY03-FY08 and reached US\$ 18 bn by FY08. This growth was achieved due to the increase in the standard of living and income levels, and reduction in tariff on imports. Another major reason for the growth was the rising demand from the automobile industry, which has a direct relationship with the auto components industry. The turnover of the auto components industry grew rapidly in the past 6 years. After growing at a CAGR of around 27.23% during FY03-FY08, the industry is expected to register a

turnover of US\$ 18.7 bn by FY10. The Indian auto components industry is extensive and highly-fragmented, diversified & heterogenous depending on the needs of each disperse geographical area. According to the Department of Heavy Industries, there are more than 400 large firms in the organised segment of the industry who cater largely to the OEMs and there are another 10,000 firms in the unorganised segment of the industry that operate in a tier-format — the firms in this segment operate in low-technology products and cater to tier I and tier II suppliers apart from the replacement market.

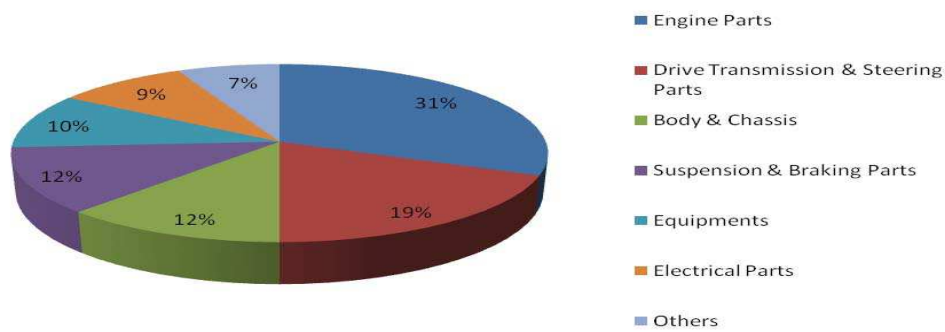
PUNE SME CLUSTER - AUTOMOTIVE COMPONENTS

STRUCTURE

The Indian auto components industry has evolved over a period of time from being a domestic supplier of low-value auto components to a sought-after hub for a variety of critical and high-end auto parts. Today, India has the potential to manufacture nearly 20,000 kinds of auto components ranging from engine parts, fasteners to brakes. According to the Auto Component Manufacturers Association of India (ACMA), the Indian auto components industry, currently worth US\$ 10 billion, has the potential to grow to a US\$ 40 billion industry over the next decade.

PRODUCT SEGMENTATION

CHART 7



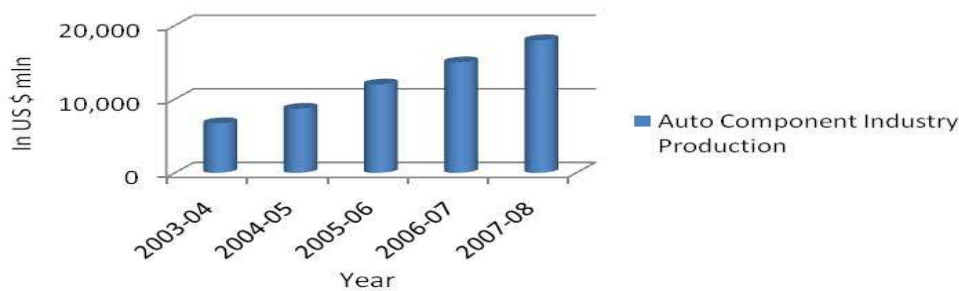
Source: ACMA - Auto Component Manufacturers Association of India

FEATURES

The auto components industry is dominated by SMEs which are largely grouped together in clusters, notably in Indore in Central India, Jamshedpur-Kolkata in the East, Pune in the West, Manesar in the North and Chennai in South India.

AUTO COMPONENT INDUSTRY

CHART 8



Source: ACMA - Auto Component Manufacturers Association of India

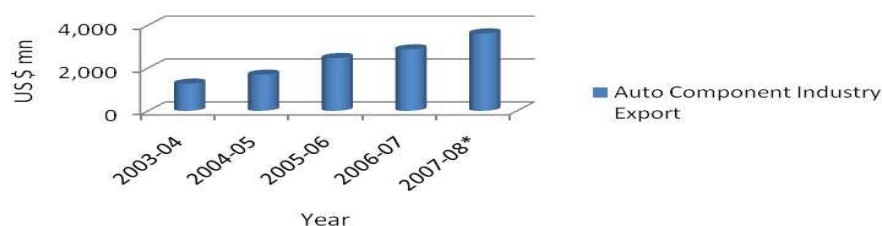
PRODUCTION

The SMEs no longer have an India-centric approach, adopted in the early years of liberalisation, but have started collaborating with foreign players for technology and skills, while also looking for potential overseas markets.

- North India is emerging as an important hub for SMEs and accounts for almost 35 per cent of exports of this sector.
- The Pune Auto cluster, in particular, is projected to export goods worth US\$ 8 billion by 2015.
- According to the Commerce Ministry, almost 50 per cent companies in this sector have achieved a 95 per cent increase in inventory turnover ratio, aided by Kaizen driven cost-effective measures.
- During the 2000 to 2005 period, the rate of growth of exports stood at 25 per cent. It is expected to go up to a CAGR of 34 per cent during the period from 2006 to 2014.
- Lack of proper infrastructure and insufficient IT-enabled units are hampering the growth of the sector. Therefore, India accounts for only 0.4 per cent of the global auto components trade of US\$ 185 billion.

AUTO COMPONENT INDUSTRY EXPORT

CHART 9



Source: ACMA - Auto Component Manufacturers Association of India

GOVERNMENT (NATIONAL & MAHARASHTRA) POLICY INITIATIVES

The National Strategy for Manufacturing, drawn by NMCC, has identified the automobiles and auto components sector as one of the areas for priority action. The Department of Heavy Industries and Public Enterprise of the Government of India aims to make India a preferred destination for the design and manufacture of automobiles and auto components. 'Automotive Mission Plan 2006-16' seeks to double the contribution of the automobiles sector in the GDP from 5 per cent in 2006 to 10 per cent by 2016; offer additional employment to 25 million people and take the output of this sector to US\$ 145 billion by 2016. The government allows 100 per cent foreign direct investment (FDI) through the automatic route.

Apart from this, the government's Industrial Infrastructure Upgradation Scheme offers a grant of up to 75 per cent of the total project cost or a maximum of US\$ 12 million (whichever is lesser) on a one-time basis to chosen clusters for improving industrial infrastructure through private-public partnership. Special Purpose Vehicle (SPV), formed by the industry/cluster association at the specific cluster level has the authority to implement the scheme. One of the first to benefit from this scheme was the Pune Auto cluster, which was granted a total project cost of around US\$ 14.41 million during 2004-5, of which the centre was scheduled to contribute nearly US\$ 12.02 million.

Recognising the growing importance of clusters in the Indian auto component industry, the Department of Heavy Industries and Public Enterprises of Government of India plans to:

- Strengthen the export, communication and transportation infrastructure in and around important clusters.
- Set up relevant governmental Institutes, research and educational facilities to serve the growing requirements of the auto components sector.
- Create a National Level Specialized Education and Training Institute for Automotive Sector during the Eleventh Five-Year Plan period.

FUTURE OPPORTUNITIES

India now ranks amongst the most preferred destinations for most of the major global car manufacturers. The country holds huge potential in the automobile sector and the automobile component sector due to the technical, cost and manpower advantage it offers. The country has inexpensive but skilled manpower, local availability of most raw materials, expansive coverage of institutional and credit facilities across the country and industry-favourable government policies. Apart from these, the growing purchasing power of a rapidly-expanding Indian middle class is driving up the demand for automobiles, thus boosting the prospects of auto component SMEs.

According to Nasscom, to attain sustainable growth, the auto component firms should enhance productivity throughout the manufacturing value chain via continuous technological innovation, upgradation and best-of-breed manufacturing practices. The Indian auto components sector is poised to vroom ahead.

According to ACMA, in North India alone, SME sector covers over 63 percent of the entire industry. The important clusters in automotive sector are:-

TABLE 2

SL No.	Cluster Location	State	Product Segment
1	Vijayawada	Andhra Pradesh	Auto Components
2	Chennai	Tamil Nadu	Auto Components
3	Ahmednagar	Maharashtra	Auto Components
4	Adityapur	Jamshedpur, Jharkhand	Auto Components
5	Faridabad	Haryana	Auto Components
6	Gurgaon	Haryana	Auto Components
7	Ludhiana	Punjab	Auto Components
8	Pithampur	Amravati, Maharashtra	Auto Components
9	Pune	Maharashtra	Auto Components
10	Ahmedabad	Gujarat	Auto Components
11	Coimbatore	Tamil Nadu	Diesel Engines
12	Kolhapur	Maharashtra	Diesel Engines
13	Phagwara	Kapurthala Punjab	Diesel Engines
14	Rajkot	Gujarat	Diesel Engines

Source: ACMA

BACKGROUND OF STATE (MAHARASHTRA) & CITY (PUNE) STATISTICS

Pune's development can be mainly attributed to the auto sector. . Auto sectors and auto component sectors gather around 50% of the total investments coming into this region. The Pune auto components cluster consists of around 500 SMEs. Of these, 25% firms are exporters, while 10% firms fall under the medium enterprise category. The cluster caters to both the Original Equipment Manufacturers (OEM) as well as the replacement market. The annual turnover of the cluster is around INR 10,000 crores (Excluding automobile majors like Bajaj Auto, Bajaj Tempo, Kinetic Engineering & Tata Motors.) The key competitive strength of the Pune auto components cluster is the Pune-Mumbai knowledge corridor and the presence of established automobile manufacturers at Pune, Nashik, Aurangabad and Nagpur. Besides, the strong presence of the engineering sector, and local availability of large skilled labor base adds to the cluster's economic strengths.

The major products from the Pune cluster are clutch components, gear components, brake components, shafts, axles, valves, engine components, electrical components, etc. The cluster uses raw materials like rubber, plastic and metals. There are many support institutions for the cluster from educational sector, research sector, IT sector and more.

Through the following data attempts have been made to understand how the small and medium enterprises (SME) operate in the auto components and electronic goods in the Pune cluster; likewise, it attempts to chart the operational structure, and the business practices of SMEs.

Pune is a manufacturing hub for auto components besides being a preferred destination for the IT sector. The cluster has been able to attract investments due to its proximity to Mumbai, its availability of well-qualified, talented professionals and abundant, skilled IT manpower.

In fact, the Pune cluster is often referred to as the Detroit of the East, considering the concentration and growth of the automobile and auto ancillary industries in the cluster. Many important global majors like General Motors, Volkswagen, JCB and Ford (to name a few) are present within this cluster

The Government of Maharashtra has decided to construct a six-lane highway to connect Talegaon, Chakan and Ranjangaon with Pune to improve the city's infrastructure.

CURRENT STATUS OF INFORMATION COMMUNICATION AND TECHNOLOGY

It has been observed that Tier I suppliers at the Pune cluster are providing greater emphasis on e-business intervention in their business planning through demand Planning & management, engineering design, and procurement and are into heavy investments to support their e-business plans. However, ICT absorption for Tier II & III suppliers is generally low end with computers used for Accounts, Stores & Order acceptance and delivery related activities. The existing ERP systems supplied by the local ISVs were found unable to meet the emerging changes in the market by most players, who are therefore now looking to upgrade their ERP. It has been found that ICT awareness among units in the cluster is quite high. Most office computers are networked and internet connectivity easily available with many ISPs offering broadband services.

ACTION PLAN

The action plan to improve the ICT engineered competitiveness of the cluster includes action at two fronts, i.e., improving the overall software eco system at the cluster level, and secondly, firm level initiatives in order to induce the SMEs for a higher level absorption. There has been huge demand for the ICT because of the important role it provides in terms of improving information sourcing related to technology/ market, improving customer relations, reducing communication time, research and development, improving production efficiency & quality, and reducing product delivery time to the market. The general consensus in the cluster is that considering emerging market developments, functional automation and cross functional process integration is the need of the hour.

INSTITUTIONAL SUPPORT

There are a quiet a few support institutions present in the cluster. They come from various technical aspects such as education, management, computer technology and applications, research institutes, and associations. A list of the same is given below:

- Auto Cluster Development and Research Institute limited
- Maharashtra Industrial Development Corporation
- Software Technology Park of India
- Centre for Development of Advanced Computing
- Maharashtra State Financial Corporation (MSFC)
- City and Industrial Development Corporation Of Maharashtra Limited (CIDCO)
- Maharashtra Small Scale Industries Development Corporation Ltd. (MSSIDC)
- Maharashtra Centre For Entrepreneurship Development (MCED)
- Vehicles Research & Development Establishment, Ahmednagar

CHALLENGES

The major problem that the cluster faces is that of infrastructure. Lack of proper power facilities is a big constraint faced by the cluster.

There are a few issues which restrain India from attaining the status of other global players. Despite being around 60 years old, the domestic auto industry lags behind other countries like South Korea, Brazil and Mexico in terms of production and sales. This makes it difficult for companies to invest extensively in R&D, a key competitive tool in the global market.

Countries like China and Thailand might put a spanner in the domestic industry's wheels as they are capable of beating India at its own game, that of low cost. The growing number of FTAs (Free Trade Agreements) that are being signed by India with countries like Thailand, Singapore, China etc is likely to hurt the domestic players as they pay a relatively higher duty of around 25% as compared to 1%-10% being paid by its Asian counterparts. Other reasons include higher tariffs and resistance to IT.

PROJECT VIKAS INITIATIVES

Project Vikas has planned a number of initiatives to tackle these challenges. Under the project, sensitisation programs are being conducted to help enterprises understand how the challenges before them can be well addressed through use of ICTs.

Project Vikas is also in the process of setting up an e-Readiness Centre in the cluster. Training programmes for the local independent software vendors are being conducted. Workshops for the CxOs and Directors of enterprises on ICT training are also being conducted. Workforce training programmes are also planned.

To enable business development of the enterprises, Project Vikas has envisaged a Web portal which would enable these businesses to connect with other business, and help them find customers as well.

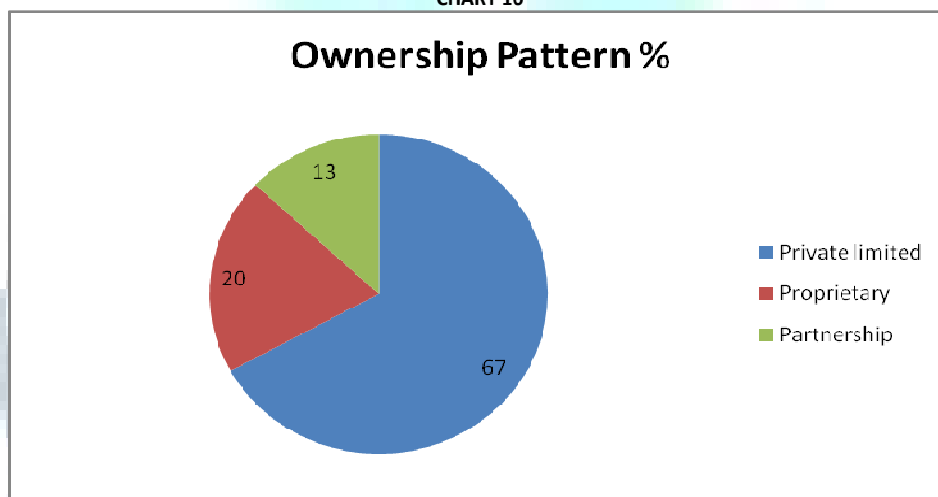
KEY FINDINGS

Some major highlights from the study of auto component companies based in Pune are as follows:- (This is a Survey of SMEs and related associations by local representatives of IDBI Bank servicing the Pune cluster conducted along with D&B: Undertaken through in depth interviews) - **D&B & IDBI SME Cluster Series 2009- PUNE**

OWNERSHIP PATTERN

The ownership pattern of Pune-based auto component companies is largely dominated by private players forming 67% of the entire sample, followed by proprietary and partnership firms that accounted for 20% and 13%, respectively.

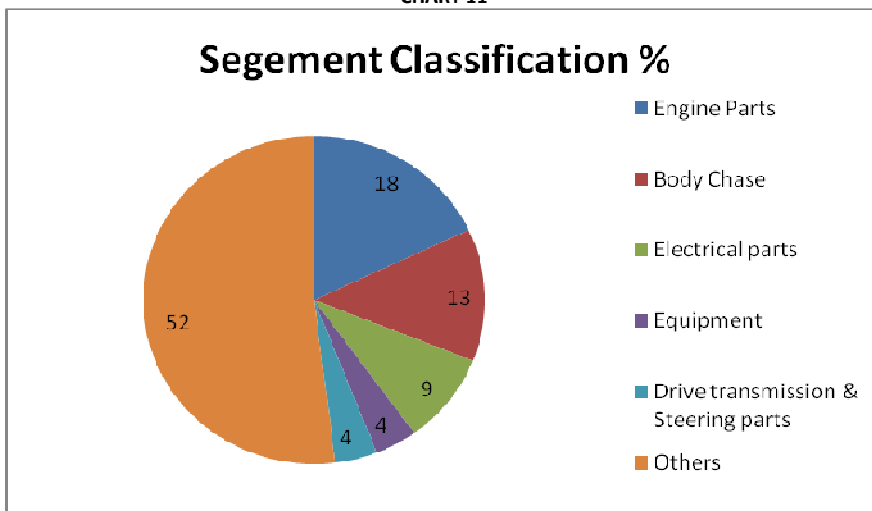
CHART 10



Source: D&B & IDBI Survey - Cluster Study 2009

The ownership pattern when compared to the IT/ITes of Bangalore it was 93% private where as the Pune cluster has substantial public participation as well. Further, there is a high concentration of auto components manufacturing companies in the cluster that cater to both OEMs and replacement markets. While around 55% of private limited companies cater to OEMs, 66% of proprietary firms are vendors for both OEMs and the aftermarket segments.

CHART 11



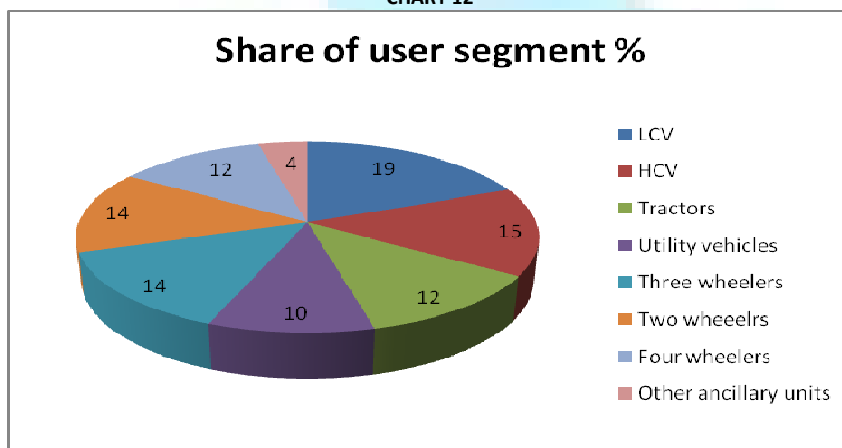
Source: D&B & IDBI Survey - Cluster Study 2009

We try to look at the diverse types of offerings in the automotive sector. It is highly heterogeneous when it comes to Pune, due to the diverse type of automotive manufacturer’s bases in this location which are leading global players. More than half of the companies studied produce components like hydraulic power and pneumatic clamping parts, lighting system for automobiles, air induction system and many more. OEMs account for majority of the demand for body chassis and engine parts; among the companies that produce engine parts, almost 50% cater to OEMs while the remaining 50% serve both OEMs and the replacement market.

USER SEGMENTS

Auto components companies in the Pune cluster have slowly transformed from being a supply destination for low-value auto components, to being a hub for a variety of critical and high-end auto parts that cater to multiple sub-segments of the auto industry. A look into the segments served, revealed that LCVs have a 19% share in the total target market served by the companies, followed by HCVs that have a 15% share. Both three-wheelers and two-wheelers have 14% share each.

CHART 12

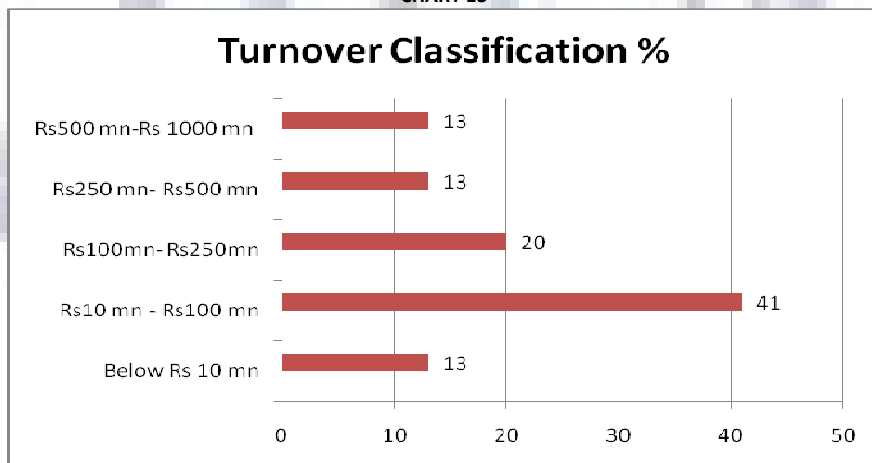


Source: D&B & IDBI Survey - Cluster Study 2009

TURNOVER CLASSIFICATION

From the chart below it can be seen that, around 41% of the surveyed companies registered a turnover in the Rs 10 mn - Rs 100 mn range and 20% had a turnover between Rs 100 mn–Rs 250 mn.

CHART 13



Source: D&B & IDBI Survey - Cluster Study 2009

EXPORTS

Almost 27% of the companies in the study were engaged in exports. Majority of the companies export to the American countries; Europe and Asia (excluding Middle East) is the second most popular export destination.

CHART 14



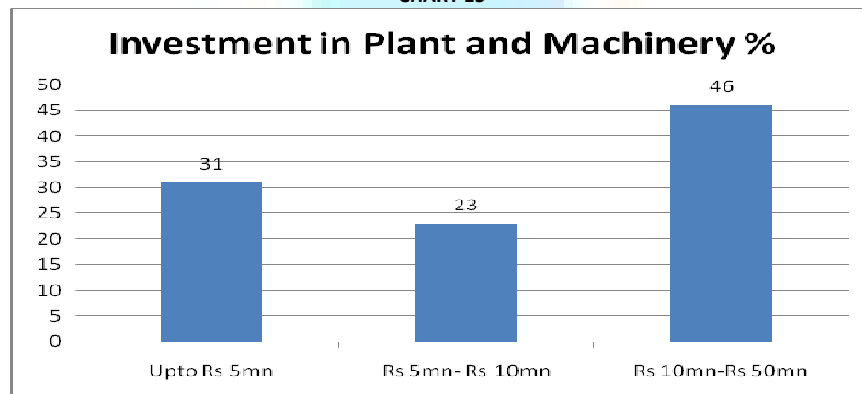
Source: D&B & IDBI Survey - Cluster Study 2009

PRODUCTION DETAILS

Majority of the auto components companies in Pune use automatic and semi-automatic machines for their production processes.

Investments in Plant & Machinery:- It was found that, 46% of the auto components companies in the cluster invest between Rs 10 mn - Rs 50 mn in plant and machinery.

CHART 15



Source: D&B & IDBI Survey - Cluster Study 2009

IT ADOPTION AMONG SMEs

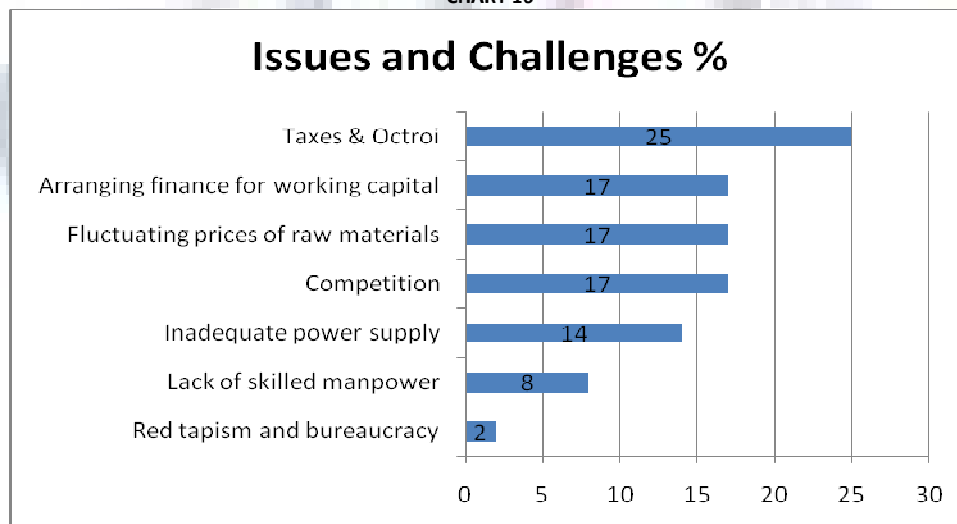
From the study it was understood that IT adoption was gaining wide acceptance among the auto components manufacturers that were operating across Pune and about 80% of the surveyed SMEs implemented IT processes in their businesses.

Hardware especially desktops, printers and scanners had a majority share in the IT budget of the SMEs. Software applications like ERP, accounts software and CNC were a few of the widely-adopted IT applications among auto components producers.

Going forward, SMEs need to focus on establishing a prompt delivery culture with the help of technology to achieve long-term, sustained growth and to combat tough competition from other clusters and from global players. In the coming years, most auto components manufacturers expect to reasonably increase their IT budgets. The need of the hour is to focus on competitiveness by aligning the IT expenditure with the business objectives.

ISSUES AND CHALLENGES

CHART 16



Source: D&B & IDBI Survey - Cluster Study 2009

Tax evasion becomes very common when it comes to SMEs because of their smaller earnings levels and non availability of funds. In terms of challenges confronting the industry, the auto components industry in Pune is found to be mostly affected by the taxes and octroi charges levied by the government, which hike up the companies' operational costs.

In terms of the competitive landscape, China comes as major competition, as it has an edge over the Indian industry with its good infrastructure and cheap raw materials and most important now leading the entire globe with its high penetration in all sectors.

Another difficulty that the players in the cluster is the time taken for arranging working capital funds, which leaves almost no room for strategic planning and for building growth avenues.

AUTO COMPONENT CLUSTER

The various factors that have led to the spurt in the growth of the auto components industry are:-

- Economic upward trend, due to increasing purchasing power of the mass & class.
- Increasing demand for vehicles.
- Stable economic policies adopted by successive Governments.
- Availability of low cost skilled manpower.
- High quality standards, requirements.
- Proximity to key markets of the world.
- Growth forecasts as per Automotive Mission Plan.

PROBLEMS

- Increasing competition if it is healthy then it increases productivity but at the SME level it ruins the market share for smaller participants.
- The cluster faces main problem in the taxes and octroi charges levied by the government, which results in increasing the operational cost.
- Another major challenge that it possess is the severe competition from China, as the latter has an edge in terms of cheap raw materials.
- Lack of proper infrastructure and also poor power facilities.
- Since India imposes high duty of around 25% compared to its Asian counterparts, the Indian SMEs are at a competitive disadvantage.

SUGGESTIONS

- Government should contribute more subsidies and funding should be properly disbursed to reach grass root level SMEs.
- State government can provide better infrastructure so that more & more global players can come start funding these cluster SMEs
- FDI/FII investment in this sector can bring robust growth
- IT/ITes & Auto Sector specific most important suggestion is providing more conducive environment to the global players for venture capital funding in these clusters - like reduction of bureaucratic structures, government procedures to be simplified, some state /municipal level assistance can augment these sectors
- Separate stock exchange for SME (already in pipeline) should be well brought into full swing to get better funding
- Subsidies / grants can be better mode to give a push to this sector
- Labour friendly laws, implementation and finally direct state involvement like including in priority sector in bank for funds availability and also unions strikes & other problems can be avoided
- Joint network building by state governments , cooperatives and companies can be better way to have common platform for networking and functioning
- Regulatory & mandatory disclosure can helped this to be more standardised & structured.
- Auto component industry has main problem on octroi & taxes being on higher side which manifest further to tax evasion. So there should be some consideration like banking sector gives in terms of Priority sector lending. Government should have some specific well structured tax system for SMEs.
- The sick companies growing in SME & SME cluster base being on higher side their should be some better rehabilitation process which is faster and better to restructure & revive the sick SMEs.
- Lastly but not the least the process of rehabilitation should be closely monitored to avoid hostile acquisitions of the SMEs

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- D & B SME Cluster Series along with IDBI – 2008 and also Report of 2009 (PUNE) – (Survey report)

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Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator