

Amidst Auto slowdown, Forging industry faces threats of production and job cuts

- The current slowdown in the auto sector has had an equivalent if not a higher impact on the forging industry, as the slowdown is across industrial sectors.
- Forging Industry provides direct employment to more than 300,000 personals in the country with an additional 60,000 contract employees
- 60-65% of the capacity of the industry caters to the Auto sector which has witnessed a weakening demand of around 25 to 30% on an average
- If the current scenario persists the industry anticipates further production and job cuts

The apex body of the forging industry in India, the **Association of Indian Forging Industry (AIFI)** expressed concern over the continuing slowdown in the auto sector. With the ripple down effect of slumping automobile sales, the forging industry is facing the heat with a sharp decline in demand which has resulted in substantial production cuts.

With an **annual output of about 30 Lakh MT**, the Indian forging industry has about close **to 400 forging units**, of which **83 percent** can broadly be categorized as **Tiny and Small Enterprises**. While **9 percent are Medium Sized**, the remaining being **Large Scale**.

While **SMEs contribute 30 percent of forging production, the Medium and Large Scale units contribute 70 percent**. With a total production worth INR 45000-50000 crore the forging industry provides direct employment to more than 300,000 people in the country along with an additional 60000 contract labourers.

The Indian Forging Industry primarily caters to the \$57 billion **Indian Automotive Industry, which accounts for 60-70% of the forging production**, with the auto sector witnessing the worst ever slowdown the forging industry has witnessed a corresponding average **slowdown to the tune of 25 -30%**.

The industry is additionally grappling with various other concerns which could have further negative impact besides the fall in demand for forged parts. Some of the major threats looming over the forging industry due to the

auto sector slowdown are part obsolescence on account of the looming changeover to BS-VI norms from BS-IV with effect from 1st April 2020, drop in the value of currently non-moving inventory due to anticipated downward commodity price corrections, difficulty in meeting repayment requirements of loans and interest liabilities due to the reduction in capacity utilisation.

The Automotive Sector has been impacted by several factors like increase in acquisition costs of vehicles due to legislative changes, the impact of which is compounded by the high GST rates, farm distress and liquidity constraints, besides unemployment and underemployment putting pressure on the household disposable income, new BS-VI emission norms, uncertainties regarding regulations and government policy, fluctuating fuel prices and the delay in scrappage policy are some of the key reasons for the slowdown.

Speaking on the slowdown Mr. S Muralishankar, President- AIFI said - *"The continuously month on month declining auto sale in both urban and rural markets has resulted in a proportionate deterioration in the demand for forgings. Currently, there is a huge inventory build-up due to poor demand and to curb this, many forging units have been making proportionate cuts in terms of working hours and production. If the current scenario continuous, we anticipate further cut in production and capacity utilization leading to job loss."*

The auto industry is currently banking on the upcoming festive season. However, according to the recent sales reports from all quarters; despite the onset of the festive season earlier this week, there has not been any major improvement in the overall demand.

Commenting on the recent measures announced by the government, he further added, *"We believe that the government needs to take a holistic approach to revive the reeling auto sector and give a necessary push. The recent announcements by the government have not resulted in any significant change in demand. The industry is hoping for a few immediate steps to be taken by the government to spur up the festive sale with measures like cut in GST rates, reducing the overall cost of ownership and time-bound implementation of scrapping policy amongst others. The revival will play a critical role in strengthening the Forging Industry and shall provide collaborative platforms to address the challenges faced by the industry."*

The auto slowdown figures - The industry produced a total 12,020,944 vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers and Quadricycle in April-August 2019 as against 13,699,848 in April-August 2018, registering a de-growth (-) 12.25 percent over the same period last year.

Continuing slowdown in the auto

As far as forward linkages are concerned, many auto dealerships are shutting down or shrinking. At the same time, the vehicle loans growth has slowed down to 5.1%, the lowest it has been in five years.

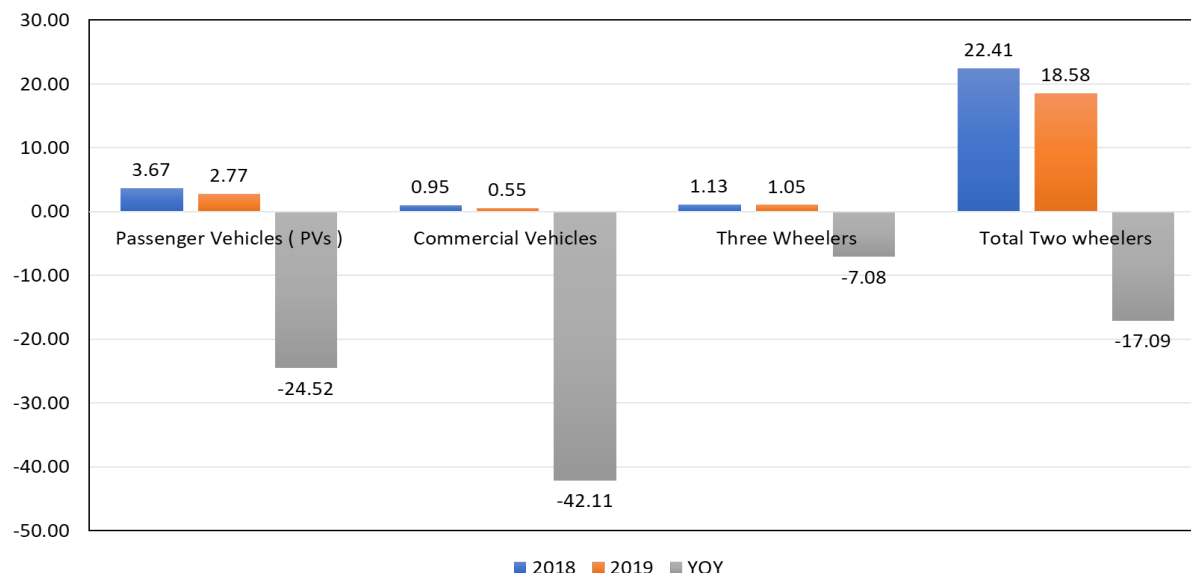
Apart from the auto sector slow down the industry is also grappling with many other challenges which seem to hamper the overall growth in the long




Numbers(in lakhs)

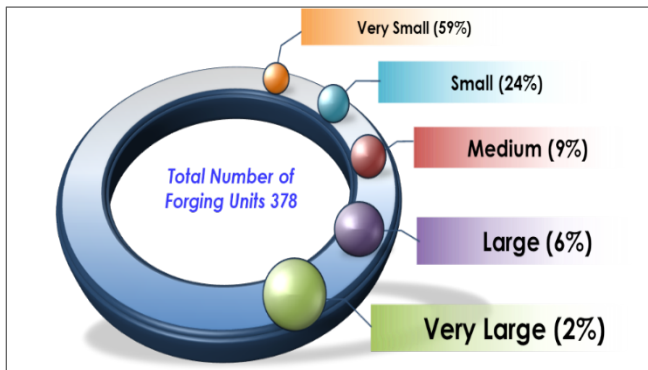
run. Issues like the **rising steel prices and demand-supply gap, high electricity tariff rates in Maharashtra region, rising fuel prices, BS-VI roll out, government's thrust on electric vehicles and technology up-gradation & modernization.**

"The need of the hour is aggressive and assertive political action that will provide a level playing field to Indian manufacturers to become competitive in the global platform and other relevant policy reforms to foster ease of doing business. There is an urgent need to revive the overall economic slowdown and increase consumption across sectors. The forging units need support from the Government by aggressive assertive political action in solving the above issues." **concludes Mr. S Muralishankar**

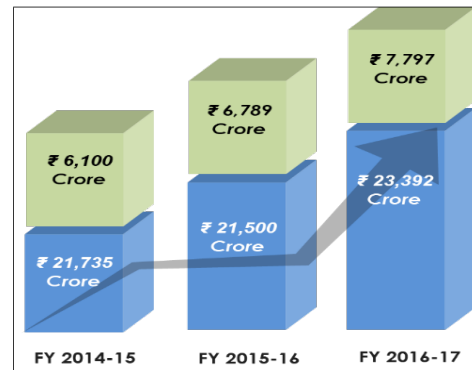
Snapshot: Indian Forging Industry



| |  Installed capacity |  Total Production (In Lakh MT) |  Total Production (In Crore) |
|-----------|--|---|--|
| FY2014-15 | 37.6 | 22.5 | 27835 |
| FY2015-16 | 38.1 | 22.8 | 28289 |
| FY2016-17 | 38.5 | 23.9 | 31189 |
| FY2018-19 | 45.0 | 30.0 | 45000 |



Scale-wise Classification of forging units vs Exports



Domestic Sales

ABOUT AIFI:

Association of Indian Forging Industry (AIFI) is the apex body of the Indian Forging Industry. At present, it consists of over 250 members, who command a large market share of the total production of the Indian forging industry. The role of AIFI is to promote and develop the Indian Forging Industry to meet the demands and expectations of forging customers and end-users, both domestic and global) by improving the business environment for its members and contribute in increasing their competitiveness through mutual co-operation and understanding of all parties concerned and constant updating of information and technology.

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