

Association of Indian Forging Industry (AIFI) is optimistic about industry revival




Chennai, 14th November 2017: Backed by the good monsoon season and surge in auto sales especially, the commercial vehicle and tractor sales Indian forging industry is anticipating an improved demand / growth in the coming quarters. According to the latest SIAM report, sales of total **commercial vehicles rose by 6.44 per cent to 69,793 units in October**. However, the passenger vehicle sales dropped marginally in October'17, the first decline in four months with manufacturers resorting to inventory correction. Meanwhile, **Domestic tractor sales** grew by **12.9% and stood at 10,001 units as against 8,859 in October** last year.

Sharing his thoughts, the recently elected President of Association of Indian Forging Industry Mr. S Muralishankar, said, *"Indian Forging Industry is one of the key players in the auto component manufacturing sector and a major contributor to the Government's Make in India initiative. In the recent one year, the demand for forgings has been on the rise both in domestic and as well as in exports requirements. But the industry is faced with challenges in steel pricing, steel availability and impact due to GST implementation issues and technology upgradation. The forging units need support from the Government by aggressive assertive political action in solving the above issues."*

Snapshot: Indian Forging Industry

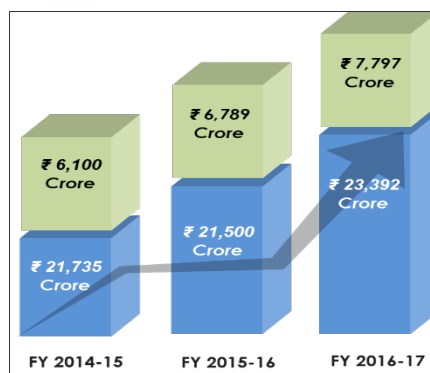
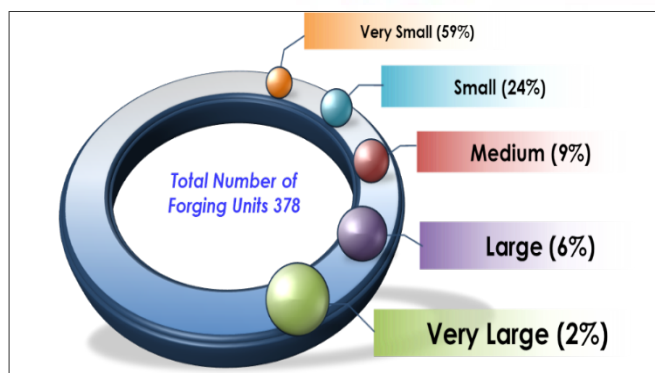
The forging industry has emerged as a major contributor to the Indian manufacturing industry. As per the recent survey conducted by the forging association, the estimated

turnover of the **378 functional forging units** across India in FY 2016-17 was **INR 31,189 crore** providing employment to approximately **100,000 people** in the country. The report also suggests that **the installed capacity** has increased from **37.6 Lakh MT in FY 2014-15 to 38.5 Lakh MT** with **overall production** of forgings increased from **22.5 Lakh MT to 23.9 Lakh MT**.

	 Installed capacity	 Total Production (In Lakh MT)	 Total Production (In Crore)
FY 2014-15	37.6	22.5	₹ 27,835
FY 2015-16	38.1	22.8	₹ 28,289
FY 2016-17	38.5	23.9	₹ 31,189

Scale-wise Classification of forging units Sales vs Exports

Domestic



Regional Data:

There are approximately **75 forging units** in the Southern Region (Chennai-29, Bengaluru-16, Hyderabad-10, Coimbatore-9, Others-11). The 75 units accounts for an **annual turnover of Rs. 4039 crores** and a **total installed capacity of 5.35 Lakh MT**. The Southern Region accounts for 14% of total installed capacity in India. Hot Closed Die process of forging is the most common process contributing to an installed capacity of 24.14 Lakh MT (63% of the total installed capacity). The Southern Region forging units account for 10% of the same. However, the units in the South are more into cold closed die forging, forming and warm closed die as compared to the rest of the country. The survey depicts 100% forming process to be adopted only in this region. These units have an **average utilization capacity utilization of 61%**.

Having mentioned the above, currently the industry, in general, is faced with an unprecedented crisis due to various factors like including high steel prices coupled with demand supply gap, focus on electric vehicles, impact of GST and fuel prices. Forging industry being a critical part of the Indian manufacturing industry stand to get adversely impacted and these challenges need immediate attention and redressal. **In his views, Mr. K Vinoth Kumar, Chairman-Southern Region, AIFI mentioned,** *"The Southern Region is mostly dominated by MSME units. As a result, the need of the hour is for the Government to relieve certain norms for the MSMEs. Subsidies towards small and medium units for upgradation from oil-fired furnace to induction heater would not only benefit the forging units in reducing production cost but would also lead to reducing the carbon foot print. Hiring a full-time Company Secretary also adds to the cost of production. Hence, the turnover limit be increased from Rs. 5 crores to Rs. 20 crores to support the SMEs. Similarly, if the limits for investment in plant and machinery for small units could be increased from Rs. 5 crores to Rs. 20 crores and for medium units from Rs. 10 crores to Rs. 50 crores, it would be a fillip for the forging units in this region."*

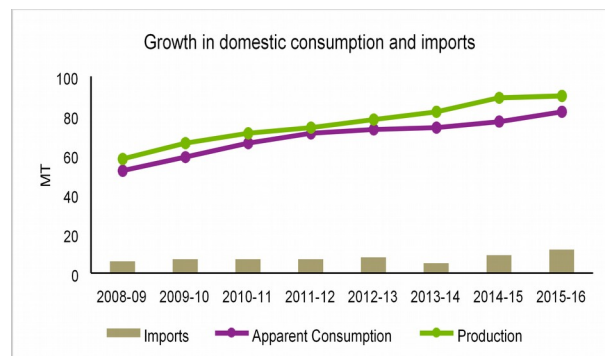
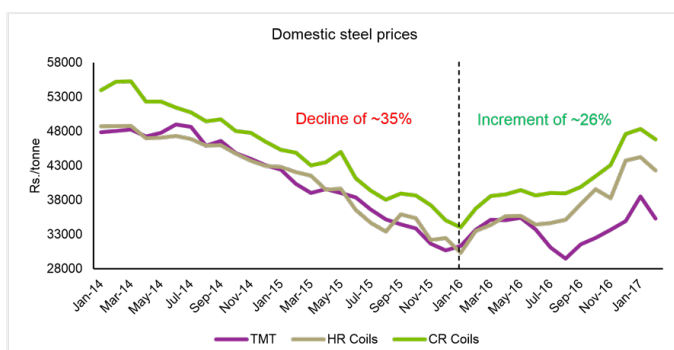
Key Challenges and Concerns:

GST impact: Even though this new tax reform system announced by the government has been acknowledged as beneficial and advantageous in many ways by industries, there are still some concerns regarding its successful implementation. The benefits of this tax reform are undeniable as it would help bring India's unorganized sector into the fold, increase exports, lower business costs across most sectors and reduce incidences of unnecessary double taxation and removal of

multiple checkpoints and permits at state border checkpoints ensuring faster logistics. However, if the GST implementation issues are not handled well, this new tax reform could have serious repercussions in the long-run of our economy. The issues pertaining to GST which require immediate attention include Input Tax Credit & documentation, increase of working capital, lack of clarity in processing returns and no cost saving.

Steel Prices and demand supply gap: The forging industry in India has been showing a growth trend since last three quarters. However, the steel requirement of forging industry is not being met by the steel manufacturers in India. The supply of steel within the country is less than that of demand.

The forging industry in India has been showing a growth trend since last three quarters. However, the steel requirement of forging industry is not being met by the steel manufacturers in India. Some of the reasons that can be attributed to the demand supply gap major players reeling under high debts, lower coal production by Coal India Ltd as compared to the demand and sufficient quality to meet the power requirements of manufacturing sector and significant rise in prices graphite electrodes, an immensely vital raw material for steel manufacturers due to demand from battery industry resulting in the shortage.



Modernization: Compared to European, Japanese & American counterpart and companies from China, Korea and Taiwan the technology & automation levels is much lower (leaving a few higher forging companies) for exporters the Indian steel prices are a deterrent for being competitive in the global market. Most of forging companies (MSME) need to upgrade their technologies, for this the industry need huge government support in terms of further interred subvention & TUF.

Focus on Electric Vehicles:

Another key issue concerning the industry is Government's renewed focus on electric vehicles and taking stern steps to eliminate petrol/diesel cars by 2030. The decision seems highly farfetched at present and require the Government to draw a clear road map for the same. Currently, India sells 22,000 Electric Vehicles annually, out of which only 2000 units are four wheelers (approximately 1% of the

Segment	Typical consumption of forging vehicle (in Kgs)
Passenger Vehicles	180-200 kgs
M&HCVs	400-420 kgs
LCVs	200-250 kgs
Tractors	250-300 kgs

total four-wheelers sold in India). The introduction of EVs will have an adverse impact on Indian Forging Industry as 60% of the forging units are into manufacturing of auto components. Internal Combustion Engines (ICEs) have approximately 2000 moving parts as compared to only 20 moving parts in Electric Vehicles. Electric Vehicles do not have engine and transmission parts completely. It only comprises steering components, suspensions and axles out of the forged auto components. As a result, on an average 60-70% of demand for forged auto components would decline resulting in job losses and unit shutdowns.

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.

##End##

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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.