

Tapping opportunities in capital goods sector can add up to ₹50,000 cr to GDP

To create up to 50 lakh jobs: FICCI- McKinsey report on India Capital Goods Sector

MUMBAI, 1 December 2016: A new report, “Accelerating growth in the Indian capital goods sector”, by FICCI and McKinsey & Company was released by Mr. Subhash Rajaram Desai, Minister for Industries & Mining, Government of Maharashtra along with Mr. Girish Shankar, Secretary, Department of Heavy Industry, Government of India and Dr. A Didar Singh, Secretary General, FICCI during ‘World of Industry’ (WIN) India conference and exhibition jointly organized by Department of Heavy Industry, Government of India, FICCI and Hannover Milano Fairs India Ltd..

The report mentions that though the demand for capital goods in the country has grown by almost two-and-a-half times over the last decade to INR 3.7 lakh crore in 2015, sectors’ contribution to India’s GDP is 0.6% as compared to 4.1% for China, 3.4% for Germany and 2.8% for Korea. Much of the demand was met by imports, thus making it the country’s fourth-largest import category after crude oil, electronics and gold.

For a \$2 trillion economy, the sector is still relatively under-developed. The study reveals that the sector could have been weighed down due to low investments in technology and talent. In Indian capital good sector, less than 1% of revenue is ploughed back in R&D as compared to 5-6% in Germany. The sector has attracted an annual investment of Rs. 18,000-20,000 crore and has been stagnant at 1.4% growth. Indian goods sector has also been missing a deep component supplier ecosystem along with limited B2B sales and marketing capabilities.

While releasing the report, **Dr. A Didar Singh, Secretary General, FICCI** said *“Capital goods is now the fourth largest import category after crude oil, electronics and gold. The future growth trajectory of the sector could be accelerated. Based on the push under the “Make in India” campaign and the trends in key end-use sectors, there are multiple growth opportunities on the horizon in India for capital goods players.”*

Mr. Abhishek Agrawal, Associate Partner, McKinsey & Company said, *“Despite the sector being under-developed, there is a silver lining. Economic reforms rolled out by the government over the years and kick-starting of capex cycle in many end-use sectors have created new opportunities.”*

He further elaborates, “the following seven segments, if tapped, could result in US\$30 bn (Rs 2 lac crore) annual opportunity for India’s capital goods players and global OEMs: Emission norms regulations; Investments into logistics infrastructure (railways, ports, roads); Thrust on indigenization of manufacturing in aerospace and defence; Urbanization; Meeting India’s energy, material and food demands; Tapping these opportunities could also accelerate the growth of this sector, add Rs. 40,000 – 50,000 crore to country’s GDP, allow import bill to be

reduced by about US\$ 20-25 billion. It could also create additional 5 lakh direct jobs and 50 lakh jobs in total.”

Link: http://ficci.in/spdocument/20790/Accelrating_Growth.pdf

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