THE INDIAN CAPITAL GOODS INDUSTRY

➢ Origins

- The development of a strong and vibrant engineering and capital goods sector has been at the core of the industrial strategy in India since the planning process was initiated in 1951. The emphasis that this sector received was primarily influenced by the erstwhile Soviet Union model, which had made impressive progress by rapid state-led industrialization through the development of the core engineering and capital goods sector.

- The 'Mahalanobis Model', which was a 'supply oriented' model with a basic emphasis on increasing the rate of capital accumulation and saving, gave the engineering and capital goods sector a central place. Superimposed over this were the other objectives of balanced regional development, prevention of the concentration of economic power and the development of small-scale industries. One of the primary objectives was import substitution, which was pursued as a priority.

- Owing to these historical factors, today India has a strong engineering and capital goods base. The Indian capital goods sector is characterized by a large width of products (almost all major capital goods are domestically manufactured) – a legacy of the import substitution policy. Even nations with advanced capital goods sectors do not produce the entire range of capital goods, but instead focus on segments, or sub segments. The range of machinery produced in India includes heavy electrical machinery, textile machinery, machine tools, earthmoving and construction equipment including mining equipment, road construction equipment, material handling equipment, oil & gas equipment, sugar machinery, food processing and packaging machinery, railway equipment, metallurgical equipment, cement machinery, rubber machinery, process plants & equipment, paper & pulp machinery, printing machinery, dairy machinery, industrial refrigeration, industrial furnaces etc. However, the raw materials used are largely domestic in origin and in many instances, the quality of domestic raw materials is not up to the international standards in terms of dimensional tolerances and metallurgical properties, which in turn affects the quality of the final product.

➢ The Policy Environment

- Delicensing was initiated in 1975. Among the industries de-licensed were industrial machinery, machine tools and other equipment.

- Broad banding of the machine tools industry in 1983 followed this. The year 1985 saw a further delicensing of 25 broad groups of industries including several items of industrial machinery for non - MRTP, non-FERA companies. The industrial machinery sector was also broad-banded covering chemicals, pharmaceuticals,

- petrochemicals and fertilizer machinery subsequently. In August 1987, a Technology Upgradation Fund was launched for five product groups in the capital goods sector.

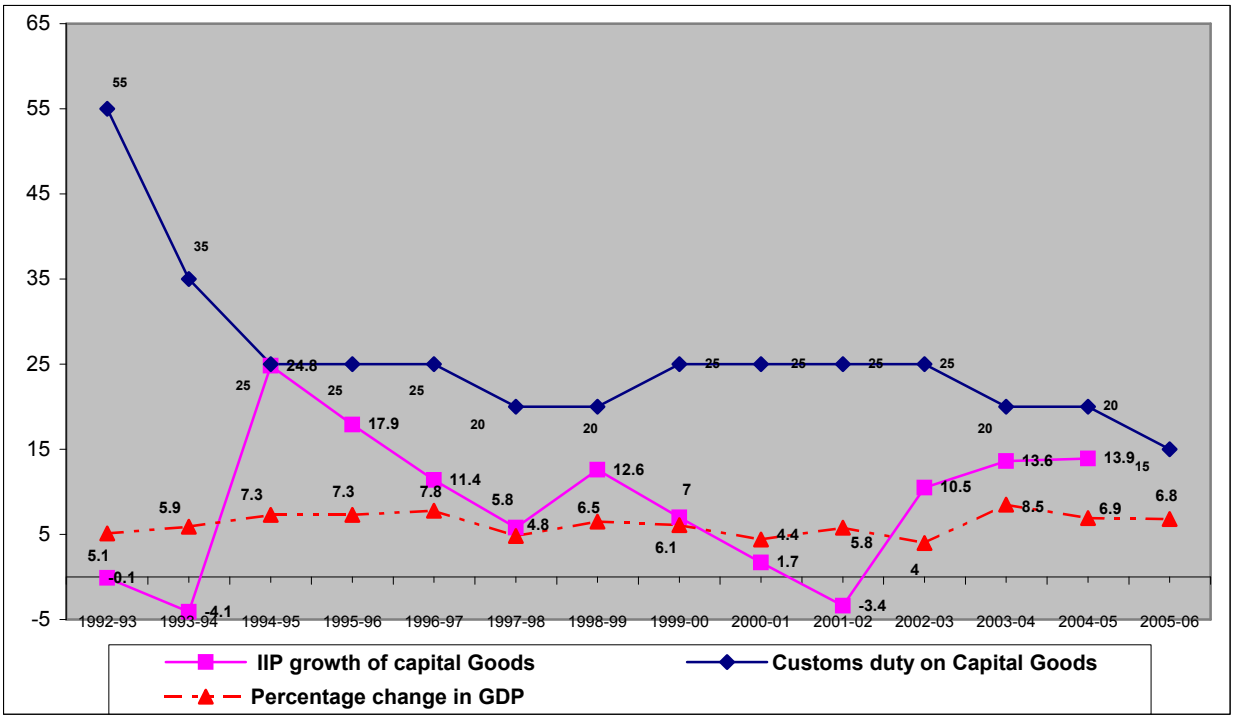
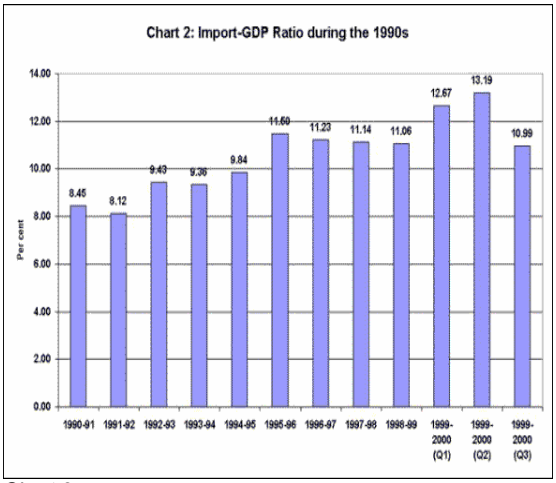


Chart -1 Compiled by CII from CSO and CMIE data

1992-93 to 1996-97: As evident from chart 1 in the period of 1993-94 to 1996-97, GDP showed an upward trend because of the expansionary phase in the post reform period in the Indian economy. If we further break the period into 1993-94 to 1994-95 and 1994-95 to 1996-97,we find that in 1993-95, the percentage change in IIP of capital goods and the percentage change in GDP; have both shown an upward trend. On the other hand from 1994-95 to 1996-97 the percentage in IIP of capital goods fell, but the percentage change in GDP rose. It is interesting to note that the IIP of capital goods fell while GDP grew. During this period, imports were high which led to a fall in GDP. This is clearly evident from chart 1 and chart 2.



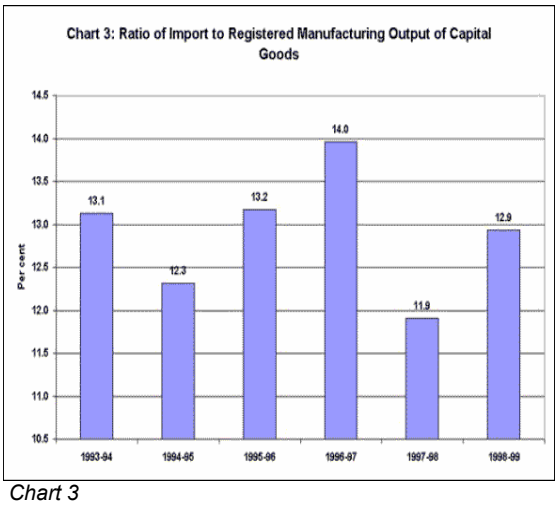


Chart 2 *Chart 3*

Compiled by CII from CSO and Economic Research Foundation, New Delhi

In 1994-95 customs duty declined from a high of 35% to 25% and remained there till 1996-97. The decade of the 90's was marked primarily by the dismantling of the high tariff walls. After having to adjust in the initial years, this sector in fact responded very positively and successfully retooled, restructured and reengineered to clock very healthy growth rates in the years 1995-96 and 1996-97.

1996-97 to 2004-05: From 1996-97 to 1997-98 both IIP of capital goods fell with the GDP. This was because of the beginning of a recessionary phase in the Indian economy. The customs duty on capital goods was reduced from 25% to 20% in 1997-98 to make domestic production more competitive. The economy saw an increase in IIP growth of capital goods and GDP in 1998-99. Customs duty on capital goods remained at 20% during this year.

The phase of transition from 1998-99 to 1999-00 saw a downturn in IIP growth of the capital goods sector from 12.6% to7%. GDP growth was more or less the same at 6.1%. However the customs duty was increased to 25%. This was because *a* Special Additional Duty (SAD) of 4% was levied in the 1998-99 Budget. The period 1999-00 to 2001-02 saw a drastic fall in percentage change in the IIP of the capital goods sector. This fall came down to a negative of –3.4%. Customs duty was constant in this period at 25%. However, a percentage change in GDP saw a decline to 4.4% in 2000-01 and again rose to 5.8% in 2001-02, which was attributable to a significant improvement of growth rates in agriculture and the financial, real estate and business service sectors. The period from 2001-02 to 2005-06 saw a growth in IIP of capital goods and GDP. However the variation of GDP growth from 2001-02 at 5.8% to 4% in 2002-03 was mainly because of very low growth in agriculture due to drought. 2002-03 onwards, customs duty has been going down backed by higher IIP growth in capital goods and GDP growth.

A Special Additional Duty (SAD) of 4%, which was levied in the 1998-99 Budget, was subsequently removed in the 2003-04 Budget.

- What does all this mean?

- Going by the performance it may seem that drastic reduction in tariffs has not really had a adverse impact on the performance of the industry i.e. tariff reduction has not been the sole determining factor for the performance of the industry. In fact, more simplistically, it appears that the performance of the industry has been the best during the years of drastic reduction in peak duties. The opening up of the economy and the reduction of tariff as well as non-tariff barriers had in fact led, to more competition, but better performance. The industry was able to successfully face the competitive pressures by re-tooling, re-engineering and restructuring. The overall reduction in duties while exposing the industry to competitive pressures had also at the same time made available inputs at more internationally competitive prices. It therefore appears that the first phase of tariff reforms accompanied by reduction in excise duties also led to much better performance by industry.

- At the same time it needs to be recognized that other factors were also in favour. During the mid-90's, the global economy was in a growth phase and therefore contributed to better performance. The fall in performance of the industry in the second phase was mainly due to less than anticipated growth of the Indian economy. The industry had built additional capacities during the first phase in anticipation of higher growth, which did not materialize.

  There is a school of thought that feels liberalization of tariffs took place much faster than required. But this may not be a strong argument since this sector achieved some of the highest growth rates when the duties were reduced drastically. From 1991-92 to 1995-96, the customs duty on capital goods saw a reduction of almost 71%. In the second phase between 1997-98 to 2004-05 the customs duty went up to 25% from 20% in 1999-2000 and now it has been brought down to 15% in the Union Budget of 2005-06.

➢ **Current Status**

The capital goods industry's annual production stood at Rs.500 billion in 2003-04. Its contribution to the exchequer in terms of customs, excise and sales tax are estimated to be in excess of Rs.150 billion. From CMIE data it is noticed that though there was a 15% increase in the market size in 2003-04, the production growth of 2003-04 over 2002-03 was only negligible at 2.7%. Consequently there was a 55% jump in imports .The imports in the capital goods sector are gradually going down as seen in the graph over the last few months.

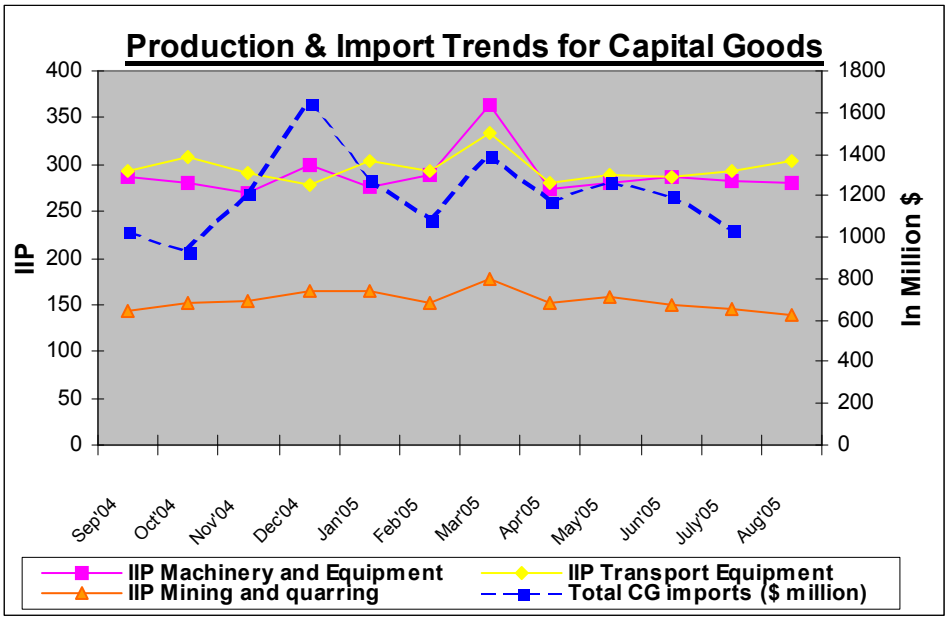


Chart –4 Compiled by CII based on CMIE and CSO data

- Most Indian capital goods are functionally at par with equipment made elsewhere in the world, but in some cases they rank poorly as far as finish is concerned. The limited presence of Indian capital goods firms in the value chain leads to diminished cost and differentiation advantage. An emerging trend among capital

goods companies around the world is the transformation of these engineering companies to a more service based organization.

- **Operational Efficiencies**

As evident from chart 5, outlining cost analysis as a percentage of net sales, the raw material consumption has ranged from 61.2% to 63.1%, which was more or less constant. Wages and salaries to net sales ranged from 7.7% to 8.3%. Power and fuel consumption has been constant at 2.1% but has fallen to 2% in the year 2003-04. The selling cost showed a gradual rise in the following years from 4.3% in 1997-98 to 6.7% in 2003-04. The administrative cost shows a gradual decline starting from 11.1% in 1997-98 to 9.4% in 2003-04. The operating profit in the machine tools sector is showing a declining trend over the years from 7.5% in 1997-98 to 4.1% in 2003-04.

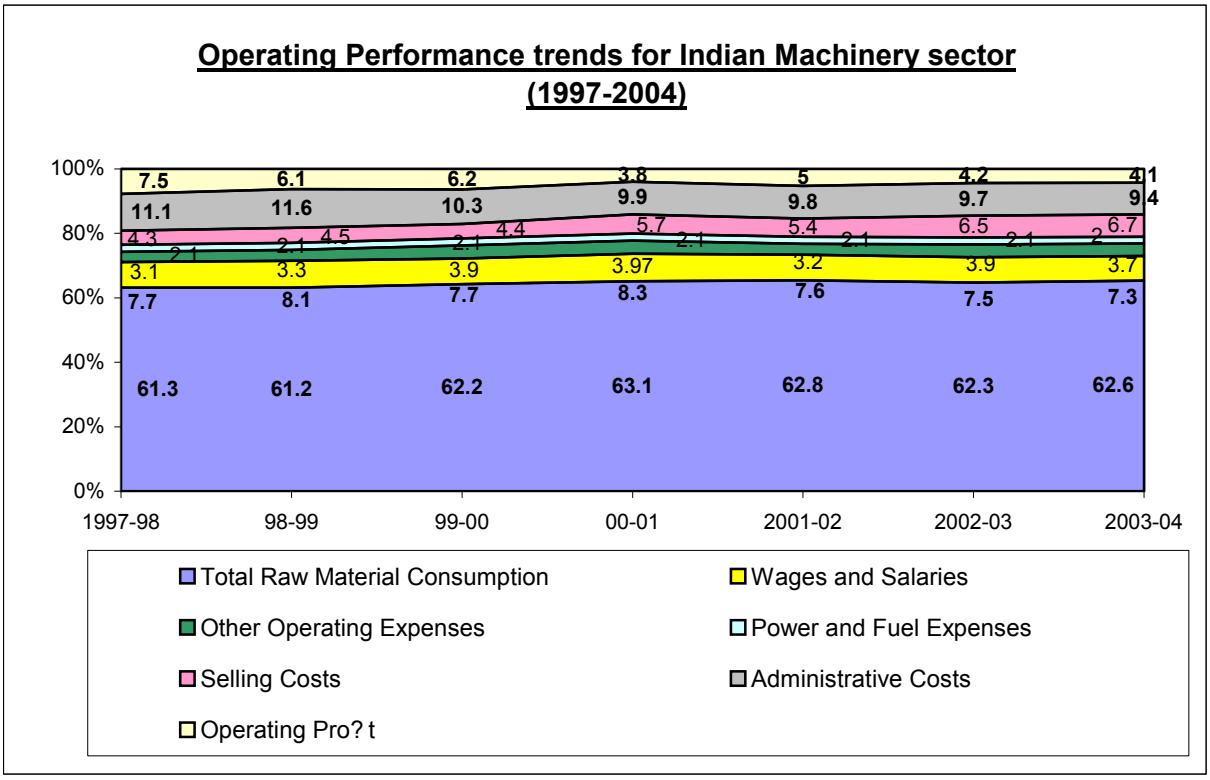


Chart-5 Compiled by CII based on CMIE and CSO data

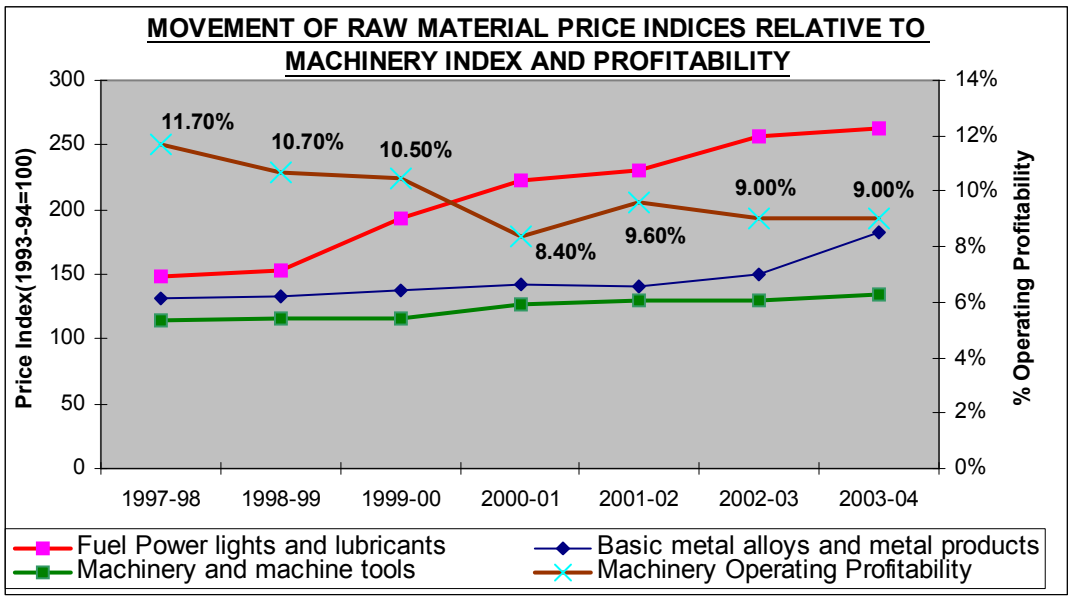


Chart-6 Compiled by CII based on CMIE and CSO data

- As is evident from chart 6, there was a steep rise in raw material prices of fuel power, lubricants, basic metal alloys and metal products, machine and machine tools. The rise in prices for example is reflected in the operating profitability in the machine tool sector, which is showing a declining trend over the years.

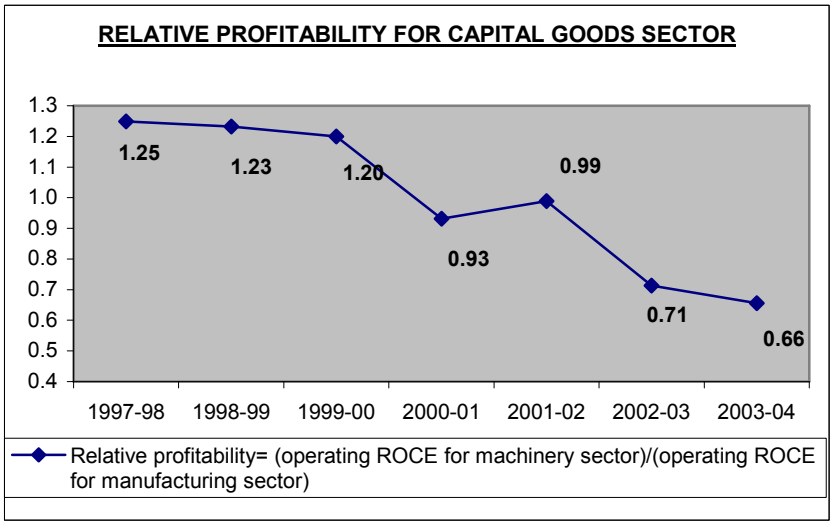


Chart-7 Compiled by CII based on CMIE and CSO data

- The growth rate of the capital goods sector is also reflected in the relative profitability of the sector. As evident from chart 7, it is found that the relative profitability is g down over the years. This means the operating ROCE for the machinery sector has been going down over the years.

- Value addition in the capital goods sector is significantly lower than the average for the manufacturing sector. As is evident from chart 8, the rise in manufacturing value

added (MVA) is more than the rise in capital goods value added (CGVA) in absolute terms.

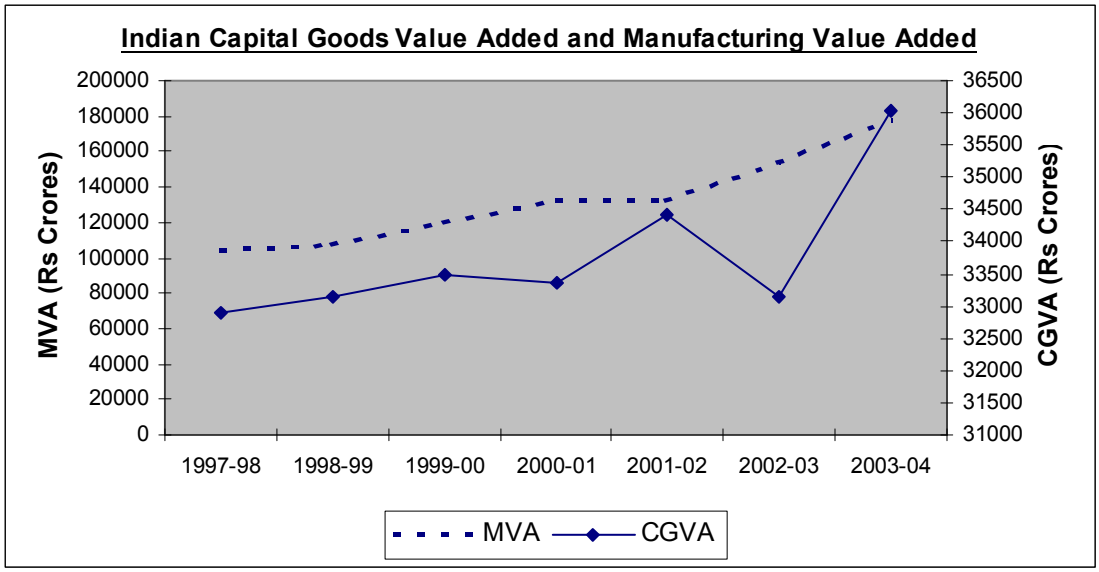


Chart 8 Compiled by CII based on CMIE and CSO data

➢ Technology

The technological tie-ups in the different sectors of the capital goods industry as evident from the table below gives a picture of the technical and financial collaborations which have taken place from 1992 to 2004.

Sector (1992-2004)	Total collaboration	Technical collaboration	Financial Collaboration
Industrial machinery (excl. chem. & text.)	1007	566	441
Chemical machinery	173	86	87
Textile machinery	74	28	46
Prime movers	194	106	88
Machine tools	264	99	165
Material handling equipments	123	77	46
Other machinery	182	68	114
Motors & generators	53	25	28
Transformers	67	42	25
Misc. electrical machinery	516	267	249

Table-I Compiled by CII based on CMIE and CSO data

➢ Capital Investments

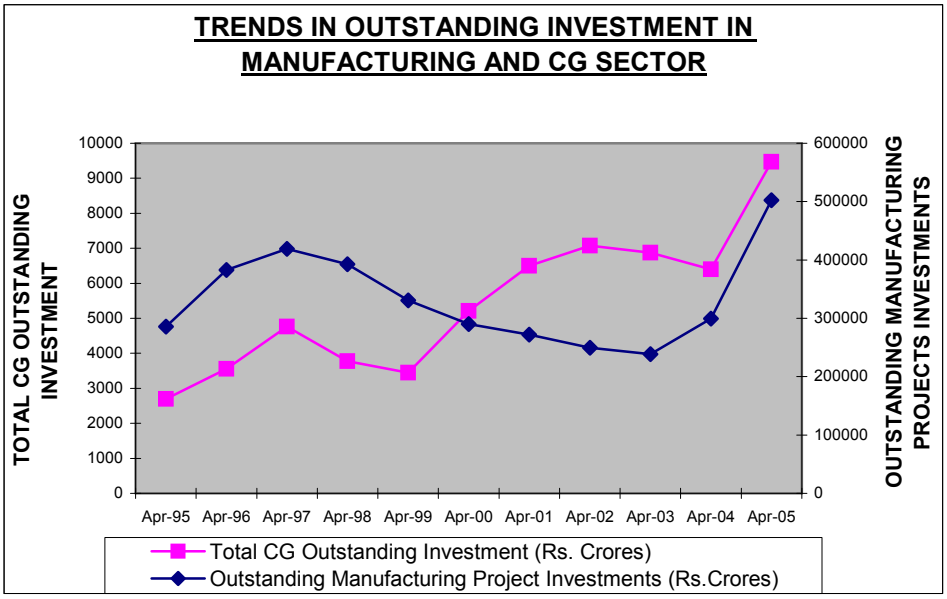


Chart-9 Compiled by CII based on CMIE and CSO data

As evident from chart 9, investment in the manufacturing sector and the capital goods sector have both showed a declining trend in the period of recession. The investment in the capital goods sector has gradually picked up from 2001-02. However, the rise in investment in the capital goods sector is more than the rise in investment of the manufacturing sector.

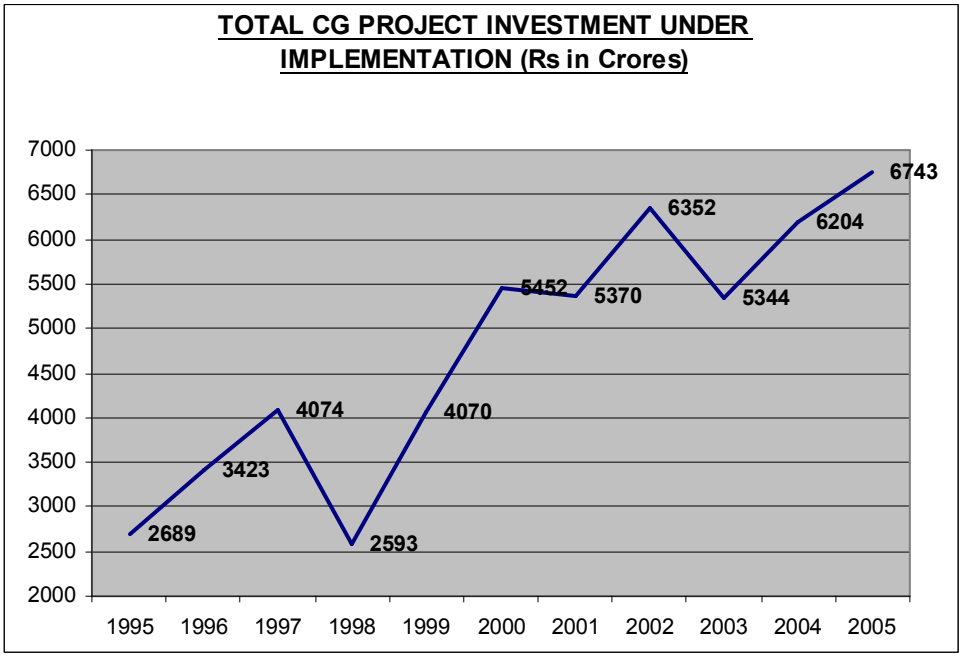


Chart-10 Compiled by CII based on CMIE and CSO data

The investment pattern in the Capital Goods sector under implementation from April 1995 to April 2005 has shown an overall rising trend. If the trends in the outstanding

investment in the capital goods and the manufacturing sector, over the period of 1995 to 2005, are studied it is found that both are showing an increasing trend.

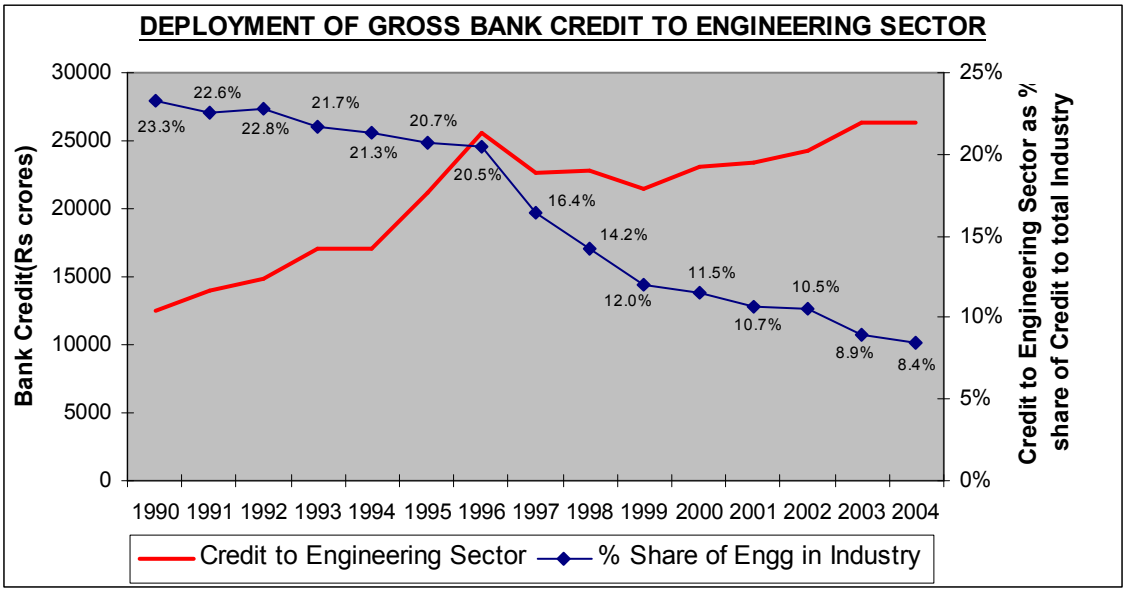


Chart-11 Compiled by CII based on CMIE and CSO data

As is evident from chart 11, credit to the engineering sector has shown an increasing trend after 1996 but has gone down slightly between 1997 to 2002 and has again started rising from 2003 onwards.

Multiplier Effect

As per the last data published by the Planning Commission in 1998-99, the **multiplier effect of investment** in this sector on employment can be visualized from the following table.

Sector	Employment Multiplier	Investment expected as of 2006 –2007 (In Rs. Crores)	Effect (Man years)
Machine Tools	.84	350	29400
Electrical Industrial Machinery	.7	2000	140000
Industrial machinery (Others)	.76	1200	91200

Table 2

Exports

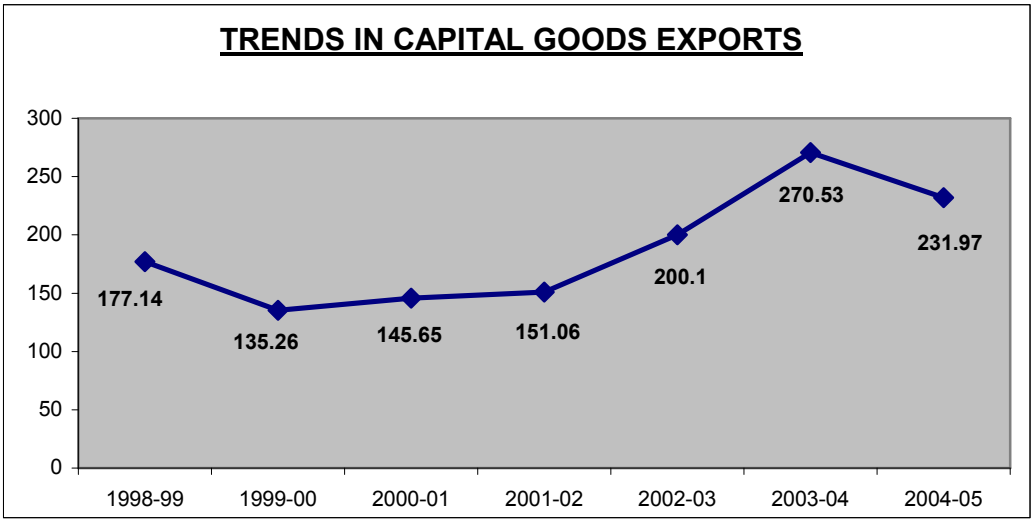


Chart-12 Compiled by CII based on CMIE and CSO data

As evident from chart 12, exports of capital goods has seen a growth starting from 2000-01 however the percentage change in IIP of capital goods fell drastically during this phase at –3.4% in 2001-02.

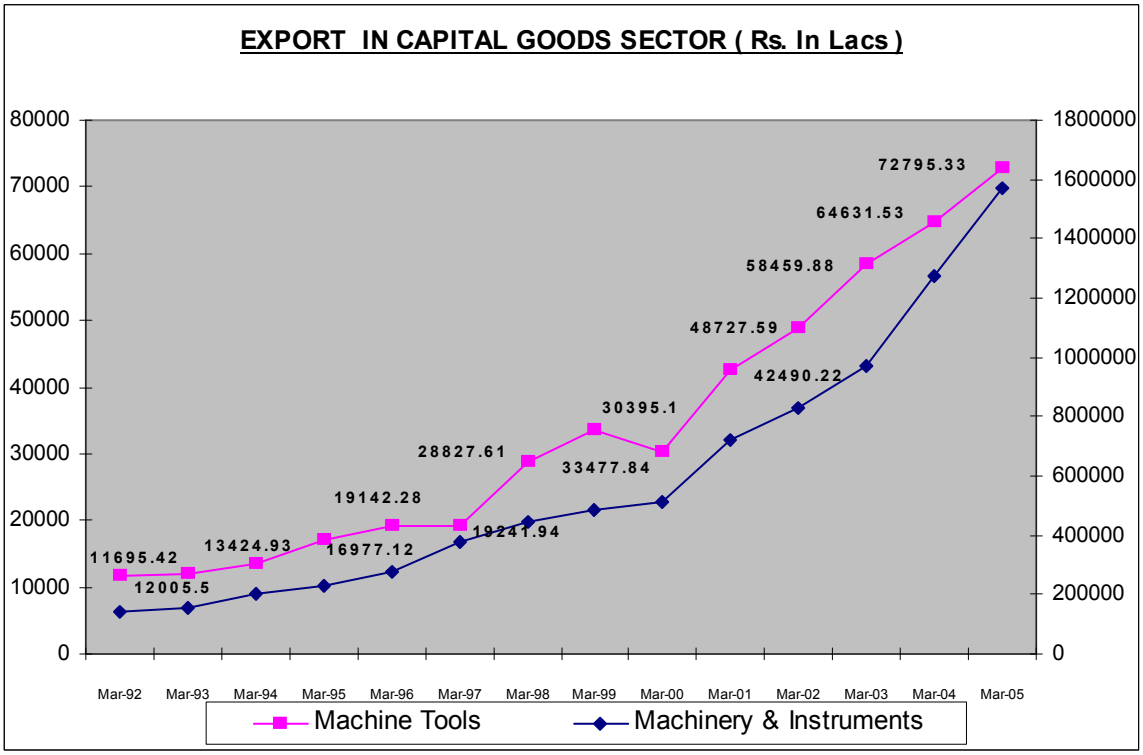


Chart-13 Compiled by CII based on CMIE and CSO data

The growth in capital goods exports has gained momentum from 2001 to 2004 but has shown a sharp decline in 2004-05 reflecting a growth in demand in the domestic market, which led to a fall in exports.

Existing Concerns

The capital goods sector in India faces a number of difficulties namely: -

- Low Tariffs (Below WTO Bound Rate)
- Inverted duty structure and lack of level playing field
- Domestic policy constraints
- Lack of demand growth due to delayed / shelved projects
- Inadequate Government spending on infrastructure
- Removal of restrictions on the import of second hand machinery
- Foreign financiers and contractors favouring home country suppliers
- High working capital requirement
- Lack of thrust on export

Low Tariffs

The peak rate of customs duty has gone down further in the Union Budget 2006 and is now at 12.5%, which is, much below the WTO bound rate of 40%. However due to the appreciating Rupee and other factors, prices of imported goods are also falling. Coupled with that is the spiraling increase of all metal prices which is making the domestic capital goods manufacturers uncompetitive and forcing them to book orders at a lower profit margin. If this situation continues it will result in a sharp decline in further investments.

Duty Structure

The current rate of Customs duty is 0% / 5% / 10% and 12.5%.

i. 0% Customs duty (+ Nil CVD) for oil & gas, power (mega power, nuclear and hydel power projects), specified road projects, etc. Full deemed export benefits are available to domestic manufacturers. However, Sales tax, Entry tax, Octroi & other local levies and duties continue to apply to domestic manufacturers.
    - Import of capital goods under 0% category for project imports and others should be removed.

ii. 5% customs duty (+16% CVD or as applicable) for fertilizer, coal mining, refinery, power generation, high voltage transmission projects, LNG re-gasification plants etc. Deemed export benefits are not

available to domestic manufacturers in addition, local taxes and levies continue to apply as per (i) above.

- Extend deemed export benefits to coal mining projects, LNG regassification plants, aerial passenger ropeway projects, fertilizer projects, crude petroleum refinery in 10th Plan and specified equipment for high voltage power transmission projects, as all these attract basic customs duty of 5%.

iii. On an average, capital goods constitute about 30% - 40% of the cost of a project. Customs duty of 12.5% on capital goods is considered a dis-incentive to investment. The logic, which demands that duty rates on capital goods should be brought down when extended to capital goods manufacturers imply that they should also get their inputs at 5% lower duty. In addition to this for any item imported under the Early Harvest Scheme of an FTA, inputs for manufacture of this item in India must be allowed to be imported at 5% rate of duty.

In certain cases where the complete equipment is coming in at 5% or 10%, some of the components or sub-assemblies are at a peak rate of 12.5% resulting in an inverted duty structure.

- Customs duty of special components and some raw materials required by the four sectors covered under the study (list has been detailed out in the report) to be brought down to 5% to make the indigenously manufactured equipment cost competitive. For example CRGO steel, an important raw material for the manufacture of transformers, is not manufactured in India and has to be imported by the manufacturers. This should attract only 5% duty. Other such raw materials and components are mentioned in detail under each section of the report.

Lack of Level playing field

All domestic manufacturers of equipment as mentioned under Sl.No.1 are uncompetitive due to the additional burden of Sales Tax, Entry Tax, Octroi, VAT and other local duties and levies, etc.

- To provide a level playing field, domestic manufacturers were considered to be deemed exporters and given the benefits of procuring their raw materials also at zero duty, besides getting a refund on the excise duty paid at the last stage. The complexion of these benefits has been altered from time to time. The refund on excise duty paid involves a time lag of 6 to 9 months and adds to the cost of the domestic manufacturer. The deemed exports route is an equalizer for domestic capital goods manufacturers and this benefit must be given without exception wherever imports are currently allowed at 0% or 5% duty.
- Imposing a 4% additional CVD on all capital goods and project imports attracting nil or 5% duty to counter balance CST/VAT on indigenous capital

goods. Imposing a CVD equivalent to the prevailing VAT rates on all imports and on the revenues for reimbursing the States that have provided VAT credit to manufacturers importing these inputs.

- ***This has been partially granted in the Budget 2006-2007 through notification No. D.O.F. No. 334/3/2006-TRU dated 28.2.06 on the basis of this recommendation being forwarded to the Ministry of Finance by the Ministry of Heavy Industry. However, this is not applicable to the electrical sector including mega power projects and transmission and distribution projects and this requires further consideration.***

The domestic capital goods industry faces high tax incidence and other cost disadvantages which work out to around 14.79 to 24.79%.

Cost Disadvantages to the Indian companies due to costs which are not applicable to Foreign Contractors for 10% duty projects

S.No.	Items	Impact
1	Terminal Sales / W.C. tax varies between States (4% - 12%)	4.6 – 13.9
2	Entry-tax / Octroi 2.5% on input materials	1.3
3	Sales-tax on indigenous inputs (4% on 10%)	0.4
4	Import Duty differential of 2.5% on 20% of inputs *	.05
5	Customs duty on consumables (36.74% on 5%)	1.84
6	Financing Cost (4% differential in Indian and foreign Interest rates on 40% working capital)	1.6
7	Inadequate infrastructure	5.0
	Total	**14.79 - 24.09**

* Since import duty on finished capital goods is 10% and domestic capital goods manufacturers can import only certain items at 10% duty. Remaining inputs will have to be imported at 12.5% duty. Domestic capital goods manufacturers will pay additional duty of 2.5% on 20% items.

Domestic Policy Constraints

- The delay in imposition of a uniform VAT replacing the CST and State taxes has been a major disadvantage for the domestic manufacturers.

- Continuation of purchase preference to the profitable PSU's is further affecting fair competition.

- The domestic manufacturers also bear the burden of various local taxes, which importers do not have to pay. In addition, there are other disadvantages in the form of external factors and costs like inadequate and low quality power, infrastructure, high cost of finance and inefficiencies in logistics – warehousing, transportation and distribution. In case of tenders specifying that "Form C" will not be issued indigenous supplies suffer additional 10% price disadvantage. Owing to these factors, the cost disadvantage suffered by the domestic capital goods industry is to the extent of 24%.

Lack of demand growth due to delayed / shelved projects

Though there has been an upturn in the economy, many sectors are witnessing inadequate investment as a result of delays or shelving of projects. More than Rs.2500 billion of investment has been shelved or delayed slowing down the growth momentum in the capital goods sector.

Capital outlays have been cut and many customers are cash strapped. Profitable companies are utilizing their resources in investing abroad and making acquisitions abroad.

Inadequate Government Spending on Infrastructure

In the Budget 2005-06 an allocation of Rs.14 billion had been provided for development of highways, which is not very significant. A SPV has been proposed for infrastructure financing which is likely to invest Rs.100 billion in 2005-06.

The Union Budget 2006-07 has indicated that 5083 MW will be added to power generation capacity in 2005-06. The total addition during the Tenth Plan period the total addition is estimated at 34000 MW. However, no significant addition is being made to the road network.

There are a number of proposals for development of 1000 kms of access-controlled highways and to enhance the budgetary allocation to the Department of Shipping by 37%. It is necessary for Government to ensure that a greater momentum is given to infrastructure growth. This will also help to promote the growth and development of the Indian Capital Goods industry.

Import of Second Hand Machines

Many companies believe that second-hand machinery and equipment from industrialized countries represent a low-cost and quick solution to the problem of replacing outdated machinery and/or building up new capacities.

There are many problems that occur when imported second hand machinery is used in India. Even if second-hand machinery may seem to be a low-cost alternative, their transfer is not always unproblematic and their use does not always provide the desired results. This is partly to do with the machinery itself, which has usually been constructed under different conditions in developed countries.

In India second hand equipment is coming in mostly in construction & earthmoving machinery, machine tools, plastic processing machines, refineries, paper, packaging, printing and mining machinery. In the estimation of the US Commercial Service, 75% of all imported capital goods in India are second-hand.

For a developing nation such as India, we cannot do without imports of second hand machinery. However, to safeguard against indiscriminate imports and to protect the domestic manufacturers, it is imperative that Government should impose certain guidelines.

Foreign Financiers & Contractors

There are several handicaps faced by the Indian capital goods manufacturers especially for projects overseas. These are:

- International competitors offer cheap supplier's credit
- Distortion in multilaterally financed projects
- No Government support for pre-qualification for overseas projects.

High Working Capital Requirements

Indian capital goods manufacturers have working capital requirements upto 40-45% of net sales (against the global benchmark of 15%). This is primarily due to the high inventory required to be carried as a result of delays in supply of inputs and consumables. Such delays result from transport bottlenecks; delays in customs clearance and supply commitments. The interest rate regime in the country results in a substantial 7 to 8% interest rate differential relative to the reference countries, amounting to a 3.1 to 3.6% capital cost disadvantage due to interest differential and 0.9% due to higher working capital requirements.

Lack of Thrust on Exports

Indian firms, in general, lack export thrust in their marketing strategies. They focus largely on the domestic market; exports gain importance only in the case of a fall in domestic demand.

Deemed export supplies to World Bank /ADB financed projects are exempted from excise duty as per C.E. notification 108/95 with specific provision in the CENVAT Credit Rules to allow availment of credit on inputs. However, no such facility is available for projects financed by other International Organizations such as JBIC, IFAD, OPEC and SIDA. Clearance under bond in such cases could remove the problems faced by the indigenous industry in claiming refund of terminal excise duty.

- Deemed exporters should be given the option of clearance under bond for goods supplied to projects funded by International Organizations like JBIC, IFAD, OPEC and SIDA.

Infrastructure Issues

The manufacturing sector and in particular the four sectors under study are facing disadvantages when compared to their International competitors due to the poor infrastructure available in India in terms of

- Unreliable power and high cost per unit.
- Port congestion and high turnaround time
- High cost of fuel and poor road connectivity of port/airports with hinterland leading to higher transportation cost.

Virtual SEZ

The current Special Economic Zone (SEZ) legislation aims to create world class infrastructure within a specified region. To enjoy the benefits of this legislation, a company is required to be physically located within the SEZ. This would make it necessary for the existing exporters to spend valuable resources in re-locating manufacturing facilities to a SEZ. An added complexity is that many companies need to be located near the source of raw material (e.g. steel), or skilled labour pools, or clusters of suppliers. It would, therefore, not make economic, or business sense to relocate such units.

In the case of the capital goods industry, many of the units have been set up some decades ago and the relationships mentioned above have matured. Apart from this, the very significant capital costs which will need to be incurred by such a unit for re-locating its production facility, would not allow such a unit to benefit from such re-location. The policy benefits of SEZ's could in no way be made available to the existing capital goods industry, or manufacturing exporters located in the various parts of the country. UNIDO has identified 370 industry clusters in various parts of India and many of the units located in these areas cannot benefit from the policy on SEZ's.

Another issue is that there is a substantial lead time involved in building a SEZ and even if a unit were to consider re-location, it would be unable to benefit from this in the short term. The solution lies in introducing a policy of Virtual SEZ which is similar in concept to the current EOUs. Any unit with exports more than 50% of its production in a block of 3 years, wherever it may be located, can be a deemed VSEZ.

Such units could enjoy all the benefits available to a unit located in a SEZ. The minimum qualifying criteria could be -

- Turnover of Rs.25 crores.
- Export of 50% of its production in a block of 3 years.

Technology constraint

In many sectors of capital goods industry, the current levels of technology in use are not contemporary. This is especially the case in SME's who very often provide components or intermediates to the OEM's .In some of the sectors there is a problem in organizing technology from overseas.

- GOI should constitute a national technology policy for critical areas. It should ensure that for all major projects in India, foreign vendors desirous of supplying capital goods must necessarily source 30% of the proposed bid from local companies. India should leverage its market to make it obligatory for foreign companies securing orders to transfer technology to competent local companies.
- All approved foreign collaboration projects of more than Rs.2 crores should submit a detailed technology absorption, adaptation and assimilation plan.
- The Department of Heavy Industry, Government of India may like to consider constituting a Modernization Fund to help the Capital Goods sector to upgrade technology, retool, install balancing equipment and achieve international benchmarking through absorption of soft technologies.

The Modernization Fund should cover the following: -

a) Machine tools and accessories.

b) Electrical equipment including motors, rotating machines, switchgears, cables, transformers, capacitors, meters and transmission lines.

c) Mining, Earthmoving and Construction Equipment

d) Process Plant Industry

The Modernization Fund Scheme should have the following three components:

- Technology Upgradation & Modernization (TUM) to assist the industry in installing modern machinery. The objective should be to make the funds available to the industry at globally competitive rates and thereby encourage technology upgradation and modernization.
- Business Development Services (BDS) to assist the industry in availing of competent techno-commercial services. The objective should be to make the globally acknowledged best practices and know-how available to the industry through accredited service providers, which would enable the industry in sharpening its competitive edge.
- Common R&D Facilities (CRDF) to address the critical R&D needs. The objective should be to address the critical needs with respect to common R&D facilities in the identified sub-sectors on a Public-Private-Partnership (PPP) model that would favourably impact the competitiveness of the industry.

The Modernization Fund should provide loans, subject to the following terms and conditions:

a) Eligibility of the companies seeking loans against this fund should have to fulfill two criteria: -

   i. An investment of Rs.5 crores as minimum and Rs.20 crores as maximum needs to be made.
   ii. A company which has approached the capital market through an IPO will not be eligible.

b) The Scheme should be in operation for a total of 5 years from 1st April 2006. Loans sanctioned by the lending agency till the last date of the duration of the scheme period, will be eligible under the Scheme and the reimbursement would continue to be available till the same is repaid as per the normal lending period of the nodal agency.

Research and Development

To encourage domestic companies to invest more into R&D the customs duties / excise duties of laboratory testing equipment should be reduced to make it affordable.

- 150% weighted deduction on R&D expenditure should be allowed under the Income Tax Act Section 35 to encourage companies to set up full fledged R&D departments with requisite manpower and laboratory.

- Customs duty or excise duty for laboratory testing equipment should be reduced to 5 %, or exempted respectively. (A separate notification giving details of laboratory and testing equipment may be issued.)

Information and Communication Technology (ICT)

To encourage higher investment into ICT the following may be considered.

- Higher depreciation on IT hardware and shoftware to encourage more companies to use ICT.

  Computer software is present attracting a 60% rate of depreciation under Rule 5, Clause III (5) of Appendix I to I.T. Rules. However, since the product life of software is very short and software is very expensive yet essential in today's competitive world, it is therefore proposed that the depreciation rate be increased.

National Campaign

Government jointly with Industry should initiate a national campaign to create awareness of next generation practices as well as undertake various initiatives to promote the development of the manufacturing industry and in particular the capital goods sector

Potential & Growth Prospects

Since the capital goods industry and its major constituents are fairly diverse, not only in terms of product range, but also in terms of their user sectors, to appreciate the industry's potential and growth prospects over the next few years, it is necessary to understand some of the key sectors in greater detail.

The five major sectors in the capital goods industry which have a significant IIP weightage i.e. a total of 37.5816 that is 56.78% of the total are electrical machinery, process plant equipment, mining & construction machinery, machine tools and textile machinery.

CII Survey

A study was conducted by CII at the behest of the Department of Heavy Industry Government of India on the capital goods industry focusing on four sectors. These sectors were:

- **Mining and Construction Equipment**

  For Mining and construction equipment the sample size consisted of 21 major companies which had a total market share of 97% of the domestic demand. The companies surveyed manufactured or sold complete equipment in this segment procuring either from the domestic market or importing. The companies chosen

are thus mainly those who are manufacturing or trading in complete equipment in India.

- **Process Plants**

  For process plant equipment the sample size included 80 major companies which had a total market share of 90% of the domestic demand. The companies surveyed were manufacturers of process plant and equipment.

- **Machine Tools**

  For the machine tool sector, the sample size included 155 large units and SME's which had a total market share of 56% of the Indian market .The companies surveyed are manufacturers of complete machine tools as well as importers of both metal cutting and metal forming machines.

- **Electrical Machinery**

  For the electrical machinery sector the sample size included 120 major companies which had a total market share of 97% of the domestic demand. The companies surveyed were heavy electrical equipment manufacturers manufacturing transformers, motors, generators, alternators, capacitors, switchgears, HT circuit breakers, turbines, power contactors and energy meters.