

**Sector:**

**Industries**

**Project Title:**

**Electrical Equipments and Engineering Cluster**

**Project Description**

India has a well developed and diversified industrial machinery/ capital base with capabilities to manufacture the entire range of heavy and light industrial machinery. The Country has established itself as a reliable industrial goods manufacturer with significant strength in high-end sophisticated technology segments. India is rapidly emerging as the global manufacturing hub and this has opened significant opportunity segments for domestic industrial players.

Engineering industry sector led by public sector major Bharat Heavy Electricals Limited (BHEL), forms the core of Indian economy. With exports of engineering goods from India reaching USD 20 bn in 2005-06, the sector presents tremendous growth opportunities for Indian companies.

To assist the development of a thriving industrial segment (of heavy industries, engineering and capital goods companies) in Madhya Pradesh (MP), the State Government proposes to establish an electrical equipments and engineering clusters in Bhopal. The cluster would support engineering and electrical equipment manufacturing firms especially small and medium scale enterprises (SME's), attain global competitiveness by facilitating access to best-in-class infrastructure.

The proposed cluster would be comprehensive in nature. It would encompass firms of all size and types engaged in various manufacturing, testing or key support functions and various other facilities of specific and generic use at a single geographic location. The cluster format would extend various benefits to the tenants in terms of synergies of operations and realization of various growth avenues arising out of such a format.

A well established industrial cluster is already operational in Mandideep which is an industrial township in the vicinity of Bhopal. The envisaged engineering cluster would leverage significant operational synergies with various units present in Mandideep.

For the envisaged project 1,000 acres of land would be appropriated and would be developed in partnership with the private developer under Public Private Partnership (PPP) module. The cluster would support around 400 companies of

various sizes.

### **Project Rationale**

Engineering and electrical goods industry has tremendous socio-economic importance. It is the key growth driver of nation's economy and has made the Country self-reliant in its technical requirements. It is a key foreign exchange earner and provides employment to majority of Country's technical workforce. Presently it provides employment to over 4 million skilled and semi-skilled labour directly and indirectly.

The sector is dominated by large organized player's especially public sector enterprises. Large capital investments and high technical capabilities are key entry barriers for small and medium enterprises (SME's) to venture into this sector. At present most SME's and regional players operates at the lower end of the value chain, where requirement of technical capability is low.

Further, Indian companies are facing tough competition from global players due to increased globalization and liberalization initiatives. The competition is tough from other low cost manufacturing destinations such as China, Korea etc. To stay competitive in the changing global scenario, Indian companies have to redefine their capabilities with greater cost control and improved efficiency.

Development of facilitating infrastructure such as the envisaged cluster is the key requirement to support domestic companies especially the SME's. The cluster configuration would enable the tenants unit to leverage various advantages of operational synergies and scale economics. It would assist small and medium companies to attain a critical mass necessary for various operational efficiencies. Further, access to high-end common facilities would impart global competitiveness to these industries.

Since the proposed cluster would be located in the vicinity of industrial major, BHEL, it would assist the companies leverage various growth avenues arising due to locational advantages.

### **Proposed Facility**

The cluster would host the following tenants:

- Heavy electrical equipment manufacturing firms
- Light engineering equipment manufacturing firm
- Engineering component manufacturing firm
- Electrical equipment testing facility

- Design center
- Logistics providers
- Central warehouse
- Captive power plant
- Power station

The cluster would offer following infrastructural facilities :

- Developed plots of 1,000 to 5,000 sq. meters
- Primary and secondary roads
- Drainage and sewerage facilities
- Excise office
- Warehousing facility
- Uninterrupted power and water supply
- Effluent treatment plant

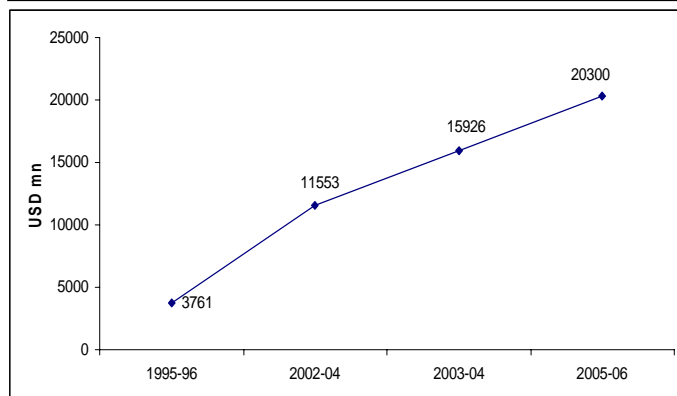
### Market Potential and Demand Dynamics

Indian engineering industry is a key contributor to the nation's economy. It has evolved as a dynamic sector and has made the Country self reliant in key areas. The total engineering production in 2003-04 was USD 22 bn out of which over 80% was contributed by heavy engineering industry while the remaining 20% was contributed by light engineering segment.

The domestic engineering industry not only caters to domestic demand but a major portion of its products and services are exported, generating valuable foreign exchange for the Country. Among the developing countries, India is a key exporter of heavy and light engineering goods with a large range of items therein.

The engineering exports have crossed USD 20 bn in the year 2005-06 registering a growth of 27.50% over the previous year. The important fact to note is the contribution of SME's to total engineering exports which is about 40%. the sector is a key foreign exchange earner for the Country.

#### Growth of Indian Engineering Exports

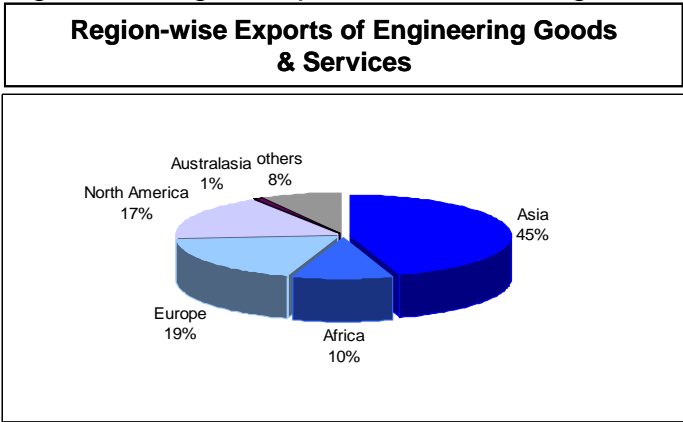


Source: EEPC

During last five years,

engineering exports have achieved an average growth of over 24%. The growth rate was particularly high at 32.40% in 2004-05 and 27.50% in 2005-06. With growing acceptance of Indian engineering goods in new market space across the globe, the outlook for domestic engineering is positive. The Engineering Exports Promotion Council (EEPC) has fixed a target of 15% annual growth during next 5 years. As per estimates engineering exports from India could touch USD 30 bn by 2008-09.

Initially considered as low-end products, Indian exports were confined to Asia and to a small extent to Africa. However, the situation has changed drastically over the years. The Country has leapfrog from being an exporter of low-value goods to developing countries to a producer of sophisticated engineering equipments targeted at developed countries. At present about 40% of the total engineering exports are made to developed countries with USA as the biggest market for Indian engineering products.



Source: EEPC

Further, there are ample opportunities arising for Indian companies due to global trend of outsourcing and offshoring manufacturing functions and services to cost effective producers such as India.

Another, key opportunity segment for Indian industries is “Engineering Process Outsourcing (EPO)”. With revenues of USD 3.5 bn at present, India has a 12% share of the global EPO market. EPO market has grown with a CAGR of 37% from 2003 to 2006 and could become USD 10-20 bn in next five years. Engineering process outsourcing is contemplated as key opportunity segment for Indian engineering industry and would form the key component of India’s engineering exports strategy.

Electrical equipment sector has emerged as the favored destination for FDI and has shown impressive performance. From April to July 2006, the sector witnessed an inflow of USD 524 mn., which is 36.11% of FDI inflow for FY06.

### Why Madhya Pradesh?

Madhya Pradesh offers the following value proposition for the engineering and electrical goods industry.

- MP has one of the lowest labour costs
- MP dominates the talent pool needed to support engineering and auto sector
- MP's talent pool is capable of meeting global standards
- ITO helped develop delivery model and vendor base to support offshoring
- MP has a vibrant and expanding supply base to support offshoring
- MP is one of the fastest growing market
- MP's geographic position offers the possibility of 24-hour cycle
- MP offers an economic of scale for capacity
- MP offers highly skilled labour pool
- Corporations are setting operations for offshoring, and local markets
- Government of MP is working on incentives to attract FDI

### Location Analysis

Bhopal has been earmarked as location of choice for developing the envisaged engineering cluster due to following key factors:

- ✓ High quality of life.
- ✓ Well developed commercial and social infrastructure.
- ✓ Ample availability of cost effective land.
- ✓ Availability of skilled manpower.
- ✓ Administrative and political center of central India.
- ✓ Presence of public sector engineering major BHEL.



### Proposed Investment

The total investment in the project is estimated around USD 6.6 mn or INR 30 crores.

### Returns

The Internal Rate of Return from the project is estimated to be in the range of 13 – 15%.

### Coordinating Agency

**Madhya Pradesh Industrial Development Corporation**