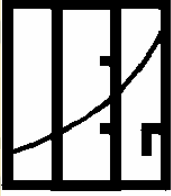


State of Competition in the Indian Manufacturing Sector

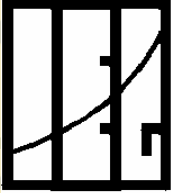
T.A. Bhavani and N.R. Bhanumurthy
Institute of Economic Growth
Delhi University North Campus
Delhi – 110007, India



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Focus of the Study

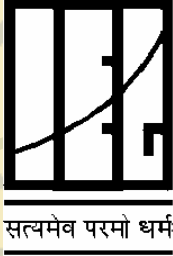
- Potential Competition
- State of Actual Competition



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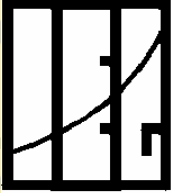
Potential Competition (PC)

- General Rules and Regulations
 - Trade Policy Restrictions
- Foreign Direct Investment (FDI) Policies
 - Small Industry Policies
 - Labour Legislation



PC: Empirical Evidence

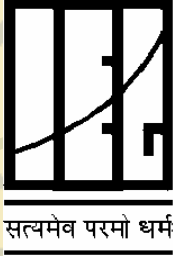
- Business Rules are still Complex
 - India Ranks 134 in DB2007 Survey of WB
 - It takes 68 days in India and 10 days in China to obtain electrical connection
 - One standardised cargo of import takes 41 days and costs US\$1244 in India, and 22 days US\$375 in China
 - Closing a business takes 10 years in India and only 2.5 years in China
 - Tariffs are Still higher, India ranks first in usage of ADMs, 18 in trade restrictiveness of policies



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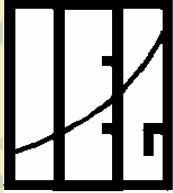
PC: Empirical Evidence

- FDI Policies are discretionary
 - Press Note 1, 2005
- BE is still not attractive limiting FDI
- India placed in ‘Under Performer’
- 326 products still reserved for SSUs
- Labour Legislation is comprehensive and complex



State of Actual Competition (AC)

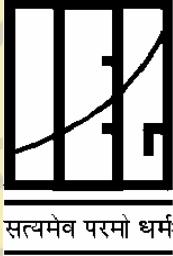
- Imports
- Supply-side Restructuring
 - Structural break
 - Shift in Size Distribution
 - Changes in Ownership & Business Organization
 - Mergers and Acquisitions
- Market Structure
 - Market Concentration
 - Composition of 1st Five Players
 - Size Distribution of 1st Five Players



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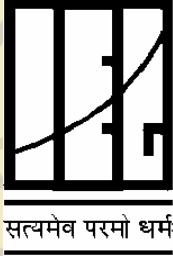
AC: Empirical Evidence

- Import Penetration ratios are still negligible
- There has been structural break in the reform period and higher growth rates after the break year in FA
- Shift towards large size classes, substantial rise in the mean values of FA & PM
- Shift towards private ownership and limited companies



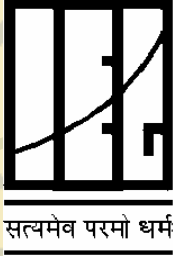
AC: Empirical Evidence

- Spurt in Mergers and Acquisitions
 - Involved TNCs in food processing
 - Driven by domestic Cos. in Textiles and Drugs and Pharmaceuticals
 - Dominated initially by domestic cos. & later by TNCs in Cement industry



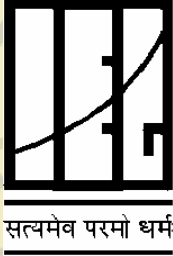
M&As: Market Dominance & Performance

- HLL became market leader in ice creams, Jams & tea
- UB (Beverages), Ranbaxy (Drugs & Pharmaceuticals), Aditya Birla Nuvo, Raymond (Textiles) retained their market leadership.
- But for Drugs & Pharmaceutical Cos, other Cos. show negative or reduced profit ratios.



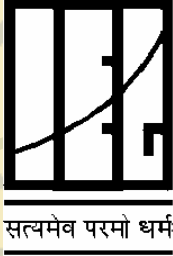
Market Concentration: Evidence

- Only 48 out of 83 selected products show low market concentration ($HHI < 0.25$)
- Six industry groups namely cigarettes, Wafers & potato chips, jams & sauces, iodized salt, medium & heavy commercial vehicles, and fuel injection pumps & nozzles reveal high concentration ratio ($HHI > 0.5$)
- HHI increased in 38 products over time



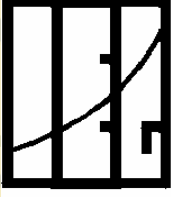
Market Composition: Evidence

- For 41 Products, Composition of the 1st Five Players remained same across the two time points (TE94-TE05)
- 48 products – Market Leader is the same across the two time points
- 45 products – Size Distribution of 1st Five Players is skewed i.e. either 1st or 1st and 2nd Players are much ahead of other players in terms of sales



Summary Findings

- There remain many more policy regulations that discourage entry
- Industry is undergoing restructuring on the supply side
- Market side picture is mixed



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Thank You