

Changing scenario: A productivity and financial slow-down in small and medium scale laminate industries

*¹ KPS Patali, ² Nita Solanki

¹ MBA Student, Rai University, Ahmedabad, Gujarat, India

² HoD,-Law Rai School of Law, Rai University, Ahmedabad, Gujarat, India

Abstract

The past 10-15 years saw a rapid growth in the Real Estate Sector. With rapid Urbanization and a growing Economy, the need for Real Estate saw a real boom. Closely associated with this boom was the evolving nature of Furnishing. From plain wood, people moved on to ply woods and laminates, keeping in view, the availability, cost and latest trends in mind. The furnishing Industry in India is today pegged at approx Rs.50,000 Crores (Fifty thousand Crores) of which laminates accounts for Rs.3,300 Crores(Three thousand three hundred Crores).The Industry contributes 0.5 % to the GDP.A large portion of the Laminate Industry till recently about 4-5 years was in the Unorganized sector. It was about 70-75% of the Laminate Business. The reasons were the large amount of taxation on the Industry, loopholes in taxation and lack of Quality awareness amongst the Consumers. However, the recent policy changes of the Government in terms of taxation, growing Consumer awareness has brought back a shift towards organized sector. The Research paper begins with a Comparison between the Unorganized and Organized sector of Laminate Industry, goes on to discuss the Implications of the Government recent policy changes on the Industry and the overall Impact, it may have on the Small and Medium Scale Laminate Industry.

Keywords: Laminates, Economy, Digital, MSME, GST, Demonetization.

Introduction

Small and Medium scale Industries are seen as the backbone of Production, Employment and Poverty reduction in developing Countries like India. They account for almost 40-50 % of the Employment as they are manpower intensive.

Small and Medium scale Laminate Industries were an important part of the thriving Real Estate and Furnishing market till a few years back. With a growing economy, better infrastructure, developing rural sector, many Small and Medium Scale Industries came up. They were flourishing in the smaller cities and towns, providing valuable job opportunities to the people of the area. In the Laminate Industry, a major portion of the Business was controlled by the unorganized sector consisting of these Small and Medium Scale units set up at low costs. A rough estimate says, till 08-10 years back about 70-75% Business was controlled by them as compared to only 30% with the Major Players.

These Industries could earlier take advantages of the lenient taxation norms, laws, availability of cheaper raw material, manpower, large Cash transactions, not so stringent quality norms etc. The changing economic scenario necessitated changes in the Government policies and certain changes like GST, digital transactions may not work in favour of these Industries in the shorter run. The long term effects at this juncture may be speculative.

Objective

The Objective of this Paper is:

- To carry out a Comparison between the Large Scale and Small to Medium Scale laminate Industry.
- To bring out the possible causes of slow down in the small and medium scale laminate business.

- Suggest possible steps the government can take to revive them.

Research Methodology

This Paper is an Analysis based on Secondary data available on the subject matter. The deductions and interpretations are based on the statistical data of the recent past reviewed from various articles, newspapers and the web.

Literature Review

In 1955, in a Small scale Industry, Investment Limits were Rs.5 Lakhs and it slowly rose. With present day Investments in Small and Medium Scale Industries being anywhere between Rs 25 Lakhs-Rs 10 Crores, things have changed a lot. Earlier about 114 items were there in the list of Items exclusively reserved by Government for Small and Medium Scale Industries, but year 2008 onwards, 79 items have been unreserved, leaving about 35 items for them like wood, plastic, glass, food items, papers, chemicals, etc. to name a few. (Satish Modi., Business Dimension, 2014).

The furnishing Industry is pegged at Rs.50,000 Crores of which laminates business is in the region of Rs 4,000 Crores. It makes a marginal contribution to the GDP by about 0.5 %. (Overview of the Furniture Sector in India, A Indo-Italian Chamber of Commerce report, 2007). As of 2015-16, the market size has for Laminates grown to Rs.7,000 Crores, a jump of almost double in about 8 years. (The Economic Times, 16 May 2016).

As per an Estimate (Blog, By Indian Laminate Manufacturers Association), India is the Eighth largest Consumer of furniture and among the top five retail markets in the world. Hence there is an added requirement to look into the slow reversal of

fortunes of the Medium and small scale Laminate manufacturers.

The economy of the Country for the past few years was quite bullish and that saw a spurt in the real estate business. Closely linked to this business, is the Furnishing market and the growth here has been phenomenal. The requirement of Office space itself has been growing at 14.5% annually. Hence furnishing such requirements is going to be on the rise. (Icra online report, Sep 2012).

The Country is going through some major shifts in Consumer behavior. The internet and advancement of technology has made marketing more measurable in terms of comparison, collection of data, learn and optimize. Industries have to adapt to this platform to market their brands or be ready to be left behind (Digital, the new marketing normal, CII report 2017).

The recent changes in Taxation, introduction of GST and Oct 2016 decision on demonetization has had a detrimental effect on these Laminate Industries. These Industries generally were using high cash transactions, technologically lacking and were not so organized as the Large Manufacturers. Financing such Industries were also at times through unorganized means as funding based on Balance sheets were not viable through qualified bank loans as in most of the cases Balance sheets were manipulated to avoid taxes.. Lack of formal financing for these type of firms has also been a stumbling block (Research Study, International Finance Corporation, 2012).

In the longer run, it will effect, the Production, Financial condition and jobs at these small scale laminates industries and as can be seen, the shift would be towards the organized large scale sector with mergers of many of these small companies with the larger ones.

Data and details

Laminate Industry has its origin in Sweden in the seventies. There are many advantages of using laminates due to its versatility and easier to clean properties. It is the technique of manufacturing a material in multiple layers, so that the composite material achieves improved strength and durability. It is bonded by heat, pressure and adhesives. Depending on the thickness of the sheets, its applicability varies in the housing and furnishing requirements. They have a large application from floorings, wall, partitions, Furniture etc.

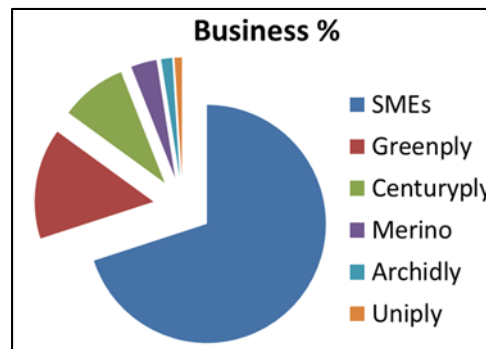
Interior decorations have become a rage in the World with growing economy and ever changing technologies. Aesthetics have become a part of life and home décor, office décor is a part of it. It is here as compared to conventional wood, Laminates play an important role because of ease of applicability, adaptability, strength, cost and value for money.

As per a report of NASSCOM, in 2004-05, the IT industry boom in India made a lateral shift in the way offices were designed and furnished. The décor moved away from conventional, drab furnishing to more appealing and modern designs keeping in view the global scenario. It was at this time, the economy also saw an upward move. Furnishing industry saw a real opportunity and many Industries already in the business of furnishing, new ones all moved towards Laminates. Till about year 2007-08, the laminate market in India was large, with the Organized big players and Small time, Unorganized sector.

In the Indian Context, when it comes to large players in the Laminate industries, the names that come to mind are Greenply, Century, Archidply, Uniply etc. As compared to

them there are hundreds of small scale manufacturers like Roxlam, Shreeji, Motif Dekor etc.

2.2 Till about year 2008-09, almost 70 % of Laminate business was with the Small scale Manufacturers. A look at the pie chart of year 2009-10, shows the fact.



Preference, Probability and Price (3 Ps) play a very important when it comes to the Indian business model as a whole.

Preference, when it comes to the Indian general psychology, is to evade taxes or circumvent it or pay least taxes. The same can be seen in business too. The preference is also towards risk aversion in business and hence to avoid scrutiny, the businesses, especially the unorganized sector avoid transparency.

Probability, of Investments in a growing Industry is always high. Hence with the boom of IT, economy and growth of furnishing, many large scale Laminates /Medium and small scale laminate producers perhaps joined the business to make quick money. Some of these perhaps over a period of time, to increase profit margins compromised on quality, cost and resorted to Balance sheet manipulations to avoid taxes/reduce taxes.

Price has always been a deciding factor when it comes to our Indian Psyche. We always want more at the least cost. The boom in real estate saw a great demand for Laminates. But as discussed, cost cutting, lack of quality consciousness and profit margins saw the real estate builders patronizing the unorganized sector of laminates.

However with the shift towards Global Business environment, the need for Quality, accountability, digital transactions and transparency in doing business, there is a change in the way business is perceived in our country too. No more, it is a business which was largely family based, the shift now is towards Corporate and a professional way of doing business. Hence the need to review, the Preference of way of doing business to suit global standards, Probability of large profit margins at the cost of quality and unscrupulous means have reduced and prices have to be globally competent also keeping in view globally acceptable business ethics.

Till about 08-10 years back, the furnishing industry was dominated by the unorganized sector. Laminates being a part of it, the same story persisted. The reasons for the mushrooming of the unorganized sector were:

- (1) Foremost was the cost. It was easier to setup an Industry as a MSME with very less capital, government subsidies and loopholes in the government system.

- (2) Excise duty which was a major portion of tax was set aside for small and medium industries. Hence by manipulating Balance sheets, some of these unorganized Industries thrived.
- (3) Quality was not a very big issue then. There were no laid down quality norms for furnishing and so comparative guidelines were missing.
- (4) The real estate was booming at a big rate. The demand for modular furnishing was increasing day by day. Amongst the real estate developers, to increase profit margins, such unorganized sector were preferred.
- (5) By just looking at the laminates, it was difficult to gauge the quality. Hence, the business of unorganized sector thrived.
- (6) Cheap labor in rural India made it easier for these unorganized sectors to thrive as it was a labour intensive work not requiring technical skills.
- (7) FDI was not so much in India. Foreign trade in this sector was limited due to difficult business norms.
- (8) Unorganized players avoided paying higher taxes by fragmenting the business and managing to remain below the threshold levels.

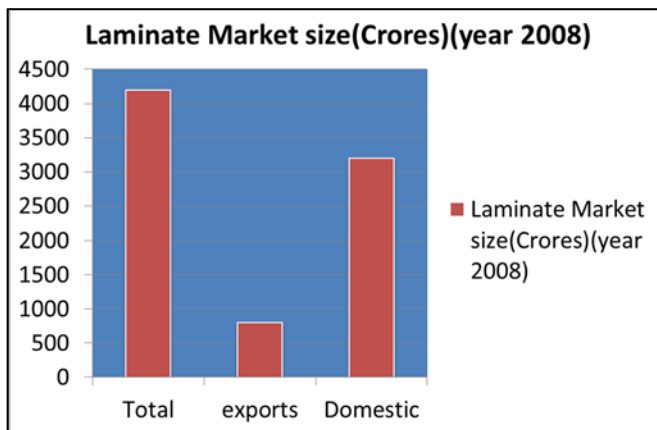
- (a) Changing economic Scenario
- (b) Changes in Government policies.
- (c) Rapid changes in technology
- (d) Changing consumer needs.
- (e) Foreign imports.

Changing Economic Scenario: The World economic scenario is fast changing. Due to globalization and advent of IT, the world has become one big family where virtually everyone is closer to each other and technology has reduced the gap. The Indian GDP has seen a lot of changes. Though topsy-turvy, for the past few years it has been range bound between 6-8 %. The growth overall has been beneficial. Per Capita income, which is a measure of living standards of the country, has shown a remarkable up move. Per Capita income has increased from Rs 36, 000 in the year 2008 to almost Rs 93,000 in the year 2015-16 and is likely to cross Rs 1, 00,000 in the year 2016-17. Hence with more disposable income in hand, the people are slowly moving towards brands. Branding is very important in the present day context. Everybody likes to associate with it. People do not mind spending extra for a quality name with durability to enhance living standards to global levels. Also at the click of a button, comparative studies can be done. The unorganized laminates are not able to match up with the quality names in laminates, nor are they able to keep abreast with the latest trends, designs and technology due to the cost factor involved.

Changes in Government Policies: As per the Indian Government policies, a medium Scale Industry is the one which has an Investment of Rs 5 crore to Rs 10 crores in Plant and Machinery. A bill has been tabled in Parliament in 2016 to revise these limits as costs of Plant and Machinery has gone up, inflation has also contributed to the price rise and the economic scenario due to global standards. Once the bill is passed, it may change the definition of SMEs in India which may impact these industries. Central Excise duty too has been a reason for this slow-down in Small time laminate industries. Earlier the Excise duty was as high as 16 % on laminates. This left lesser margins for large players as profits. However small players used to avoid Excise duty by showing Income below the threshold limit of Rs 1.5 crores annually for application of central Excise by manipulation. Also their Business was confined to smaller regions. However over the years, Government realized this and created a level playing field by reducing the Excise to 10 %. This has been a big boost to large players.

The recent introduction of Goods and Services tax bill(GST) is also a move by government to make a level playing field. The advantage of GST is it would be applicable beyond Rs 20 Lakhs. But for Small time laminates, this would have an effect on their profit margins and may not seem as lucrative as before. Earlier the small and medium scale units at times used to fragment production and remain below the threshold level but with GST, every unit will have a GSTN registration number and every transaction, be it raw material, labor, production, sales, etc. would be traced. Hence transparency in business would be brought in.

Digital India, is the thrust of the present Central government. With digitization, it is expected to bring more transparency to doing business. All records of business have to be digitally maintained. Small Scale and Medium scale business which



The Major players in the organized sector are Greenply, Century, Merino, Archidply to name a few. Besides there are a lot of operators in the unorganized market. As per a report based in the newspaper, The Economic Times, 16 May 2016, compared to 40 % market share in 2013 of the Unorganized sector, the same has come down to 30 % in 2015. This shows a clear drop of 10 % business within 02 years and almost 40% in 08-10 years. This shows a clear lateral shift towards the organized market of laminates, gradually.

As of year 2015-16, the laminate Industry is approx an Rs 7000 Crores business in India comprising both of the organized and unorganized sectors. As compared to about 08-10 years back when the unorganized sector constituted about 70 % of the business, the last few years have seen a shift towards the organized sector.

As per a report of Greenlam Industries also more or less the figures are the same. As per them, out of a total domestic market of Rs 3400 crores, the Unorganized sector gets a business of Rs 1400 Crores which is approx 40 %. Amongst the Organized players, Greenply and Century Laminates control almost 25% of the laminates business in India.

The various reasons that are attributable to this slowdown in growth of the medium and small laminate Industry are:

were a part of unorganized business too would have to comply with these changing requirements. This would entail use of Computers, maintenance of records and use of IT. The small scale businesses would get a setback here too as it would bring in compliance costs. Compliance costs are the same, be it for large businesses or small. For large businesses it is as low as 0.5 %, for small players it may be as high as 3.5 % as it would entail maintaining digital records, hiring professionals for that at extra cost to the business.

Also the recent decision of Demonetization by the Central government is a big jolt to this Small and Medium laminates business like all other SMEs. SMEs mostly were used to Indirect fundings as their businesses were mostly Family owned and Capital/Balance sheets were not enough for regular fundings through banks. Hence the source was cash from Shroffs, lenders etc. But with demonetization, the parallel cash market has received a jolt and these companies will be starved and may lead to close down of several companies. These Firms also were Labor intensive and less dependent on Technology. With cash starvation, manpower retention has become a problem for these Firms. The effect of demonetization may be temporary for the economy as a whole but for these small industries, unless radical changes in the way they deal changes, it would be the end of the road.

The government has also brought about strict pollution norms in the recent past. Earlier these small scale Industries had no or very little waste, disposable mechanism, thus causing environmental hazards. Lot of sludge from laminates was left out in the open causing health hazards. Government has cracked its whip on such Industrialists.

Rapid Changes in Technology: The technology is changing very fast and state of the art Machinery is being introduced. This in turn leads to better quality products. Also the output is much faster. The newer technology offers low maintenance and contemporary designs at lesser costs. But for Smaller laminates business to continuously keep in pace is getting difficult as large amount of capital investment, automation, etc is involved. Also stringent quality norms to meet global standards require more capital investment.

Changing consumer needs: With globalization awareness amongst consumers have changed. Also the major chunk of the Indian population is the youth. Brand consciousness, buying power and quality consciousness is slowly driving people towards premium, branded products in all sectors. This has also affected the small players as their marketing skills, reach and power is limited.

Possible steps to revive the small time laminate business

For a country like ours, where Small Scale Industries which are perhaps the largest employment providers, a slow down hits the common man the most, especially in the rural sector. Revival of such Small scale industries is a must, with the efforts of both the government and entrepreneurs. A few recommended steps are :

- (a) Government must look into the taxation system, especially the threshold limit, beyond which GST is payable.
- (b) MSME policy may have to be revised to increase subsidy rates.
- (c) Power supply, water may have to be subsidized further. Also continuous power supply needs to be ensured.

- (d) Banks must be encouraged to provide loans to small players. Presently because of the risks involved, banks avoid giving loans to MSMEs. For this to happen, MSMEs may also have to contribute by transparent dealings, especially proper book keeping, maintenance of digital records, etc. Credit rating systems for these industries need to be evolved at the same time keeping physical documentation for loans at minimum.
- (e) Presently internet has a limited reach in our country. The rural sector where most of these small industries are located, have connectivity problems. The government should ensure broad band reach to these areas for these Industries to have a global reach.
- (f) The younger workforce is slowly being drawn towards the lure of big cities. Infrastructure needs to be developed to retain the workforce there.
- (g) Wages have to be made competitive. For this to happen, digital records, book keeping must be made compulsory. Also as far as possible, cash payment of wages have to be dissuaded through strict enforcement rules.
- (h) Cheap imports from countries like China have to be stopped by having higher import duties.
- (i) Modernization has to be encouraged through subsidies in allotment of lands in SEZ, subsidies in adopting latest technologies and training.
- (j) Diversion of funds from the purpose for which it was allotted has to be dealt with strictly. This would ensure genuine entrepreneurship.
- (k) Availability of raw material, proper infrastructure to these Industries may have to be looked into.

Conclusion

Small and medium sized laminate industry which was thriving a few years back, have definitely seen a slowdown due to the various reasons discussed above like other small and medium scale business. Revival of these Industries is a must in our country as they account for 40 % jobs along with other MSMEs. Reasons for their gradual reduction are a combination of own lethargy, inferior quality standards, failing to keep pace with changing consumer needs, not able to meet global standards and poor marketing, to name a few. Besides, government policies, poor infrastructure and fast changing technology have also added to their slowdown. A proper arrangement between all stakeholders in the longer run would iron out the flaws in this Industry.

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