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Market Watch

Slowing India: The slump we've been reading about enters our backyard

BY AKSHATHA M & NAVEEN MENEZES, ET BUREAU | SEP 06, 2019, 10.37 AM IST

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Peenya Industrial Area, with 8,500 small and medium scale industries, employs around eight lakh workers mainly in the [manufacturing](#) sector. This large industrial suburb in the city has seen a steep decline in production over the past few months. Factories have reduced work shifts from three to one. Workers and machines largely remain idle in many units. This nerve centre of the Old Economy — which reflects the state of the manufacturing sector — is barely managing to stay afloat.

K Santhosh Kumar, owner of SNT Tooling Systems in Peenya Industrial Area, manufactures press tools, moulds, plastic-press components, etc. Of late, he is having nightmares. His 23-year-old business — which was rarely under financial stress — is running into rough weather. While most of his regular clients have stopped placing new orders, even those who have placed orders are delaying payments.

Over the last six months, Kumar's monthly business turnover has fallen from Rs30 lakh to Rs7 lakh. "I am barely able to manage the overhead costs including salaries, purchasing raw materials and maintaining machinery," he said. The 50-year-old factory owner has already laid off five workers and says he does not have enough work to allocate to the other 20. As a result, round-the-clock three working shifts have been cut down to one. Those who remain with him fear retrenchment.

Kumar's business perhaps best reflects the deteriorating scenario that Asia's largest industrial hub is experiencing. This industrial suburb in north Bengaluru with over 8,500 small and medium scale industries and 8 lakh workers, is bearing the brunt. The signs of a slowdown started showing early this year. The demand for products in the automobile and allied industries including engineering, electrical, electronic and battery started to see a decline. Almost 25% of the factories here serve the automobile sector. It also houses a large number of allied industries.

With most factories reducing shifts from three to one, the otherwise busy roads wear a deserted look as dusk sets in. "Peenya was a noisy buzzing place even at night. On a normal day, most factories here would operate even at midnight, making loud noise. The situation, however, is different now. Silence envelopes the place after 9 pm. It is scary to even venture out," N Shashikanth, a worker, said.

Factory owners who experienced sluggish business were hopeful that it will revive after the general elections and the Budget. But their wish did not come true. Many factory owners said that the situation worsened in the last three months, especially August. All those ET spoke to shared similar views on business losses, issues with high slabs in GST, liquidity crunch and possible layoffs.



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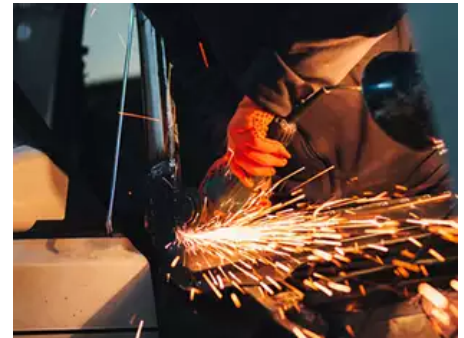
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For want of statistics, one cannot accurately quantify the amount of loss — both financial and [jobs](#) — and the reduction in business turnover in the last six months. Following media reports in the past week about the job losses, office-bearers of Peenya Industries Association too are cautious about sharing information.

"There is a slowdown, may be by 20-30%," MM Giri, president of PIA, said. He was, however, quick to add that the problem is temporary. "The trouble is particularly linked to the automobile sector. But we do not want to highlight the problem as it will demoralise manufacturers. We are confident that the government will come to our rescue," he said.

Even as the employees — both skilled and unskilled — are staring at uncertainty, the association has maintained that there has been no job loss. In contrast, insiders say that there has been at least 10% layoffs. "Factories have mostly started laying off contract employees. I



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know for sure that two large factories have retrenched about 300 workers," a factory owner who did not wish to be named told ET.

The factory owners who manufacture products like air control equipment, compressors, CNC machines, power tools, electricals and electronics and fabrication have stopped getting bulk orders from their clients.

Among them, companies that are hit badly are those with homogeneous business. Factories that supply select products to 4-5 similar customers are facing a sudden fall in orders as all of their customers are experiencing losses. Whereas, those with diversified customers, for instance, fabrication industry that supplies machine parts and motor bodies, are largely unaffected.

"I do not get bulk orders from my regular clients anymore. If not for the aerospace sector, I would have downed shutters long back. My clients, who are in the automobile sector, have stopped giving me work for the last six months," DT Venkatesh, who owns engineering firm Growell CNC Systems, said. As a result, his annual turnover has come down from Rs20 crore to Rs4 crore. It had a cascading effect on employees. About 40 workers, he said, had to quit as the factory could not provide sufficient work.

This is the third experience of a slowdown for Venkatesh, who is in the business for the last 25 years. When a similar situation occurred in the past, he said, the government had come to their rescue. "We got a one-year relief from repaying bank loans. The interest rate on loans too was reduced. Taxes on medium and small-scale products were lowered to encourage more consumption," he said.

The **slump** in overall business has also affected smaller trades such as welders, suppliers and hoteliers. Said V Kripalan, owner of Ambadi Enterprises, a hardware store, "Purchases have come down drastically. We used to be very busy between 8.30am and 12.30pm. Now, we are almost free as there are hardly any customers."

Entrepreneurs are now looking to the central and the state governments for support. "In times of a crisis like this, we need some hand holding. GST is an important aspect that needs some relaxation," Srinivas Asranna, senior vicepresident of Peenya Industries Association, said.

The association believes a reduction in the GST for job work will provide an immediate relief to the industry. "We request the government to bring down GST from 18% to 5% for small and medium scale entrepreneurs who are engaged in job work and works contract," Asranna said. They had also made a mention of this request in the memorandum submitted to finance minister Nirmala Sitharaman when she was in Mysuru recently.

Their second demand is for relaxation of the due date for GST payment from the 20th of every month to once every quarter. "During a crisis like this, it becomes difficult for small scale sectors to pay GST on time, especially when their customers buy time (up to four months) to settle payments," he said.

Diwakar Reddy, whose factory manufactures automobile tools, hopes to hold out for another six months.

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