TAMIL NADU

Recovery with headwinds

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Industries in Tamil Nadu have seen recovery in demand after two waves of COVID-19, but a higher raw material cost is a spoilsport. Also, any negative impact from the spread of the Omicron variant would stall the recovery

Industries in Tamil Nadu have seen a recovery in demand, after two waves of the COVID-19 pandemic, but a higher raw material cost is a spoilsport across sectors. The automobile sector, which faced a semiconductor shortage, expects things to ease in 2022, but the other sectors expect the cost inflation to continue longer. Tamil Nadu has the highest number of factories (38,131) in India, and industrial recovery is essential for the State's economic growth.

High disruptions

"The first wave saw a nationwide lockdown that restricted the operations of the manufacturing companies and it was followed by the migration of guest-workers back to their native places. The infections were less than in the second wave but the disruptions to business were high," said Srivats Ram, managing director, Wheels India Ltd., an auto-component company. In the second wave, while the disruptions to overall manufacturing were less, the infections were more. However, the bounce-back was swifter than the first wave, he pointed out.

"The challenges that remain are supply chain-based, more related to semi-conductors for the automotive industry, both in India and overseas. Barring this supply-chain constraint, there is possibly an adequate pent-up demand for a reasonable growth once the constraints have been overcome," Mr. Ram said. The situation, according to him, is likely to ease from the second half of the financial year 2022-23, and the general feeling is "worst is over".

A spokesperson of Hyundai Motor India Limited said that despite the challenges posed by the pandemic and the global semi-conductor supply constraint, the Indian automotive industry had consistently contributed to the positive growth of the economy. "At present, the automobile sector has been witnessing multiple changes. While the Indian government has announced schemes to boost the sector such as the production-linked incentive and the scrappage policy, we are cautiously optimistic," he said.

Pointing to the shift towards electric vehicles, the spokesperson said Hyundai was gearing up for the game by lining up 6 battery electric vehicles (BEV) for the Indian market by 2028. Hyundai Motor India will invest approximately ₹4,000 crore in research and development for the expansion of 6 BEVs till 2028.

"Our focus is on devoting resources to the development of MECA, which is mobility, electric, connected and autonomous technologies. Our goal is to provide the widest possible variety of smart-cars that can connect people seamlessly with their homes and offices, as well as with urban infrastructure," the spokesperson said.

A spokesperson from TVS Motor Company, a two-wheeler manufacturer, said the company had consistently prioritised the safety and well-being of its workers even while ensuring business continuity.

"The long-term practice of physical distancing is pivoting consumer preferences towards personal and safe mobility. Young and tech-savvy consumers are driving the need for aspirational offerings in the industry and the company has launched premium products this year," the spokesperson said.

The spokesperson added that for the two-wheeler industry, three things held the key — sustainable mobility, connectivity and customer delight. "While these do not seem to be new, their interpretation has evolved."

Tamil Nadu has been at the forefront of attracting investments in the electric vehicles space. According to a report by Colliers, India will see a total investment of ₹94,000 crore ($12.6 billion) in the next five years in the electric vehicle space, and Tamil Nadu will account for the highest share of 34%.

The Tiruppur garment export industry, 90% of which is micro, small and medium enterprises, has shown that it can survive the challenges that came with the spread of the second wave of COVID-19 earlier this year, said Raja Shanmugham, president of Tiruppur Exporters' Association. The Tiruppur garment industry is looking at closing the current financial year with exports worth ₹33,000 crore as against ₹24,000 crore last fiscal. "We have sustained business though the volume of exports did not grow much," he said.

He pointed out that the lockdown to curb the second wave of COVID-19 came just when the industry was in a revival mode. "The fear factor was high among members of the public during the second wave and the rate of vaccination increased. In Tiruppur, over 90% of the workers are vaccinated, many taking both doses. This is an achievement for the industry, with the support of the State and Central governments," he said.

Mr. Shanmugham pointed out that during the first wave of the pandemic, the production of personal protective equipment and masks shot up, while after the second wave business was back to the export of regular garments. "Workers have also stayed back, and are more aware of the risks of COVID-19. So, the industry is more confident and reckons that even if there is a third wave, the impact is likely to be minimal."

The impact of the increase in the Omicron cases in European countries will be felt only in the last quarter of the current fiscal. As in the case of the other sectors, input cost increase is hitting the industry. "Across the value chain, input costs are up 40%-50%. The industry is struggling to manage this situation. While the government ensured liquidity of funds after the first wave with schemes like Emergency Credit Link Guarantee Scheme, it should support the industry now," Mr. Shanmugham said.

Vidyuth Venkatesh Rajagopal, managing director of the Chennai-based garments exporter Celebrity Fashions, said that when the lockdown was imposed during the first wave, the company's priority was to conserve cash flows and protect its 3,000 employees. "We reached an agreement with our workforce for a 50% cut in wages when an intense lockdown was imposed during March-April 2020. As things opened up, we restored the salaries and went aggressively to acquire customers in the international markets."

However, higher cotton prices have been a dampener, and the situation is likely to persist for another year. "While the demand has come back strongly, how we negotiate the raw material cost issues would be the key," Mr. Rajagopal said.

The residential segment of the real estate industry has seen a recovery, helped by the pent-up demand for housing and attractive interest rates for loans. Suresh Krishn, president, Confederation of Real Estate Developers Association of India, Tamil Nadu, said the industry was hit by the increase in cement and steel prices, and M-sand shortage. Munuswamy Anandan, chairman and managing director, Aptus Value Housing Finance India, said interest rates were likely to increase soon owing to inflationary pressures. "We see the industry having largely recovered from the shocks of supply chain disruption and health scare. Sectors such as electronic manufacturing, information technology and retail have recovered well; sectors like automotives and auto-components haven't fully recovered. We think this is the new normal that we have to live with," said Aditya Mishra, chief executive of recruitment firm CIEL HR Services.

Under control

The Omicron variant has so far been under control. And India's decision to start vaccination of children will help to build immunity. Thus, the optimism and the consumer sentiments have remained stable, contributing to the stability in the demand, he said. Indicators such as GST collections, power demand, and employment scenario show the recovery is real. But there are some challenges. According to data from Central Electricity Authority, Tamil Nadu's power demand increased 9.2% to 73,226 million units in April-November 2021, compared with 67,015 million units last year. As per the net enrolment figures of the Employees' Provident Fund Organisation, about 7.55 lakh jobs were added in Tamil Nadu's formal sector from April to October 2021. About 6.64 lakh jobs were added in 2020-21 and 8 lakhs in 2019-20. However, the data are subject to constant revisions. There are huge variations between months. For instance, the data showed about 55,000 jobs were added in June 2021. The additions have averaged out at 13,000-15,000 between July and October. Kavita Chacko, senior economist, CareEdge, pointed out that the demand for employment under the Mahatma Gandhi National Rural Employment Guarantee Scheme in Tamil Nadu has been 7% higher so far this financial year.

"The increased demand indicates lower employment opportunities elsewhere." For industries to recover fully, cost pressures have to ease. Also, any negative impact from the spread of the Omicron variant would stall the recovery.

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