Published Date:	Wednesday 3rd June, 2020	Publication:	Business Standard [Mumbai]
Journalist:	Amritha Pillay	Page No:	7
MAV/CCM:	170,820/85.41	Circulation:	32,793

Capital goods firms seek price preference policy

Cos claim they get only purchase preference for 50% work via public procurement

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Mumbai, 2 June

In the run-up to Prime Minister Narendra Modi's call last month for the country to aim for self-reliance, the finance minister restricted foreign companies from participating in bids of ₹200 crore or less. Domestic capital goods companies, however, are now asking for a price preference policy as well.

"There is a general clamour for such a preference as is prevalent in many other countries," said Vimal Kejriwal, managing director (MD) and chief executive officer (CEO) of KEC International.

Other capital goods companies see a valid reason for such a demand. "Through the public procurement policy, we get only purchase preference for 50 per cent work, whereas many countries provide price preference. For instance, a 10 per cent advantage is given to local manufacturers in Saudi Arabia. That is what we are asking for," said a senior official from a large capital goods firm, speaking on the condition of anonymity.

According to Indian Brand Equity Foundation data, India imported electric machinery and equipment worth $3.28 bn in the first half of FY19-20 and $9.86 bn worth of equipment in the whole of FY19

"Korea, Japan, China, and Europe, are some of the countries that win orders in India. The industry is now asking for not just purchase preference, but price preference as well," said M S Unnikrishnan, MD & CEO of Thermax.

For instance, last year, China's Wuhan Engineering won coal gasification and ammonia/urea packages for the project order from Talcher Fertilizers in India. In April, India's engineering conglomerate L&T said it won an equipment order for the same project from Wuhan Engineering.

Companies like Siemens suggest that the government needs to reduce the cost of doing business to ensure the growth of domestic firms

People in the know say, in 2019, Wuhan engineering won the fertiliser plant orders amidst competition from several domestic capital goods companies. India's capital goods companies now seek to change this trend through a price preference policy.

According to data available with the Indian Brand Equity Foundation, India imported electric machinery and equipment worth $3.28 billion in the first half of financial year 2019-20 and $9.86 billion worth of equipments in the whole of financial year 2019.

The report said the indigenous industry caters to 40 per cent of medical and surgical equipment demand, while the rest is met through imports.

Companies like Siemens suggest the government needs to reduce the cost of doing business to ensure domestic firms grow. "The price preference policy demand cuts both ways, to be honest. On the one hand it absolutely makes sense to do that. On the other hand, why can Indian companies not be internationally competitive," said Sunil Mathur, MD and CEO for Siemens.

He added, "The entire issue is why the Indian company is expensive? I don't think it is because he wants a higher profit, but because his cost of doing business is higher."

The industry executive quoted earlier in the story added, "Unavailability of globally competitive project export financing puts Indian exporters at a disadvantage against competitors from Japan, China, Korea, and Europe due to structure disadvantage of high interest rate and inflation in India."