

WHY INDIA'S FACTORIES STRUGGLE TO KEEP UP

Strict overtime limits and inflexible schedules make Indian factories slower and more expensive than global rivals



TARUN KUMAR SAHU/MINT

Bhuvana Anand, Pranjali Chandra & Naveena Pradeep

NEW DELHI

How are we supposed to compete with the rest of the world, with countries like Vietnam?" asks a garment manufacturer from Punjab employing more than 200 people. He has spent the afternoon walking us through its orders, what each one costs to fill, and how long it takes.

His exasperation comes despite a decade of industrial policy, production-linked incentives and reforms aimed at manufacturers like him. On the one hand he faces a shortage of labour and on the other difficulty in deploying labour because of restrictions under India's working hour regulations.

Competing in manufacturing requires factories to meet the speed and cost demands of modern supply chains. McKinsey's survey of apparel chief procurement officers since 2013 has consistently found that brands weigh speed and cost when choosing where to source from.

The criteria reflect the conditions in which firms compete today. Factories face volatile demand, shorter product cycles, and tighter delivery expectations.

Managing such conditions requires arranging working time across a production cycle to use capacity more efficiently, shorten delivery timelines, reduce inventory costs, and improve the chances of winning repeat orders.

But India's working-hour regulations determine how much room factories have to make that adjustment. A factory's production schedule rests on three sets of rules. Regular work, which caps the hours a factory can schedule at regular wage. Overtime, which determines how far beyond those hours the workday can extend, and at what price. And rest, which prescribes the breaks within a workday and between days.

Together, these rules set the boundaries on how production time is arranged, extended, and priced, and therefore how quickly and competitively a factory can meet a global supply order.

WORKING-HOUR FLEXIBILITY

India's working-hour regulations have long constrained how employers organise work. Even before the introduction of new labour codes in November 2025, India prescribed restrictive limits on all three aspects of work schedules—regular work, overtime, and rest—with little room for adjustment.

The Occupational Safety, Health and Working Conditions (OSHC) Code, enacted in 2025, retains much of this framework.

When we compare India's working-hour regulations with 15 countries and the International Labour Organization's (ILO) convention, we find sharp differences in the freedom employers and workers have

to organise work schedules.

Countries like the US, New Zealand, the UK, China, and even those adopting the ILO's Working Hours Convention, lead the flexibility ranking because they allow factories far more room to adjust working time.

In contrast, India locks its factories into the same week, every week of the year.

Amit Jain, who chairs the Muzaffarnagar chapter of the Indian Industries Association, argues that these rules reflect an older world of physically demanding non-mechanised factory floors. If employers and workers are both willing to arrange work differently, he asks, "why should they not be allowed to do that?"

REGULAR WORK

India does not allow any rearrangement of regular hours across days or weeks. In most countries, including India, the limit on regular hours in a day is 8, and in a week is between 44 and 48 hours. However, in at least 12 countries, and as per the ILO's Working Hours Convention, regular-hour limits are targets to be met on average, not ceilings to meet every week.

Consider a surge in demand. In India, factories cannot exceed the 48-hour weekly limit. So an Indian factory can schedule only 192 regular hours over a four-week period.

A factory in China does not face this challenge. It has to meet an average 40-hour weekly limit over a year. This allows a Chinese factory to frontload 240 regular hours into a four-week period, and compensate workers with a reduced workweek of just 30 hours for the next eight weeks.

When factories cannot rearrange regular hours, they fall back on sub-par workarounds. A brewing factory in Odisha noted that during periods of high demand

it had three options.

One, it could limit production and turn down orders. Two, it could hire contract labour, shifting the burden of lack of flexibility onto these short-term workers. Or three, it could arrange overtime informally.

OVERTIME WORK

India sets the highest price on overtime work and the strictest caps on overtime volume.

In India, every overtime hour must be paid at twice the wage rate, the highest statutory premium among the countries studied. Most countries set the premium at 1.5x; three set none; the ILO sets the minimum at 1.25x.

On volume, India caps the workday at 12 hours or less. After eight hours of regular work and half an hour mandated break, 3.5 hours remain for overtime. India also caps overtime hours per quarter. Most countries do not cap workday length and allow higher overtime hours than India. Even the ILO's Working Hours Convention does not reference workday length or overtime hours.

India's overtime regulations could put

a factory on the wrong side of the law simply for competing in the global market.

In Rajasthan, a textile exporter says he relies on informal overtime, paying workers 1.5x the regular wage; the same rate a factory in China or Vietnam pays lawfully. The textile industry leader in Punjab echoes the same informal rule: "In practice, nobody gives a 2x overtime premium."

The penalties for such a breach are heavy: a fine of ₹2 lakh-3 lakh.

REST

India is more flexible than most countries in scheduling rest; however, that flexibility is difficult to access. Indian workers get the same 30-minute break and the same weekly day off as most of the countries studied. The variation lies in how the rest interval is structured within a shift and whether the rest day can be postponed.

In India, the rest break must be scheduled after 6 hours of work. In Germany and New Zealand, factories and workers can together decide when to schedule rest breaks.

In India, postponing even a single rest day requires government permission. In contrast, 11 countries permit postponement by right or on conditions set in the statute itself.

To be sure, rest rules in India may not match how Indian factory workers actually use rest.

mint
KEY NUMBERS

16TH

India's rank on working-hour flexibility among 16 countries and the ILO benchmark, per a Prosperiti study.

23%

How much longer an Indian factory likely takes than a Vietnamese one for the same order.

18%

Extra labour hours per gadget an Indian factory likely pays for versus Vietnamese or Chinese.

In major industrial cities, many factory workers are migrants from Uttar Pradesh and Bihar who travel home for Diwali and Chhath. The Delhi-National Capital Region's 2,000 garment factories reported 15% absenteeism in the two weeks after the 2024 festivals, per an industry report.

The factories faced labour shortages, lost output and paid a premium to recover what they could. The workers lost wages for the days they were absent. An industry representative from Punjab describes the struggle. Migrant workers in his state are young and want to build savings so they can go home for longer, he says. If workers could accumulate rest days more easily, they would keep their wages and factories their output.

LOST OPPORTUNITY

In 2023, as Foxconn and Apple were setting up in Karnataka, they asked for more flexibility in working-hour rules, the Times of India reported. Foxconn's primary manufacturing base was China, and it wanted its factories elsewhere to match what the Chinese factory could produce in a day.

Foxconn's concern can be tested with a simple experiment.

Consider a hypothetical 500-worker electronics factory, working a single shift, in each of the 16 countries studied. Ahead of a September iPhone launch, each factory receives an order for 10,000 devices to be completed in three months.

Say the factories are identical in productivity, wages and technology; only the rules on working hours differ. How fast and at what labour cost would the Indian factory deliver compared to elsewhere?

The results are stark.

The factory in India cannot match the pace of its global peers. It takes 13.7 weeks to complete the 10,000-iPhone order, 23% longer than the fastest factory, as per Prosperiti's 'State of Regulation: Working-hour reforms for competitiveness' report.

In contrast, factories in 12 countries complete the same order in 11-12 weeks.

The Indian factory falls behind because it cannot keep the same pace throughout the production cycle. Without the option to rearrange regular hours, the only way to go faster is overtime. Vietnam, with a 52-week averaging window, can sustain peak production for longer and completes the order in 11.1 weeks.

The Indian factory cannot compete on cost either. To complete the iPhone order, it pays for 49.3 labour-hours per unit, at least 18% more than factories at the cost frontier. India's unit cost is high because 144 of the 800 production hours per worker are paid as overtime at 2x the regular wage, pushing paid labour to 985 hours for 800 hours of output.

Vietnam, which avoids overtime under annual averaging, pays for 41.7 labour-hours per iPhone. The Philippines relies on overtime, but its lower premium keeps the cost to about 46.4 labour-hours per iPhone, roughly 6% below India's.

The combination of slow delivery and

high cost makes India an unattractive manufacturing destination.

Products with short life cycles need suppliers that can deliver quickly and absorb last-minute changes. A phone model sells through the quarter in which it launches. Products with thin margins need suppliers that minimise unit cost. Cables, chargers and casings sell at volume year-round on margins of a few rupees. India is unattractive for both kinds of supply chain: too slow for products with short lifecycles, and too expensive for products that run on thin margins.

The delivery gap is visible in manufacturing. Per Vector Consulting Group's report titled 'The Missing Stitch: India's Unfinished Garment Export Story', Indian garment manufacturers fill 60-80% of orders on time, against the high-90s reliability global retailers treat as baseline.

Besides, India's low productivity could compound the regulatory disadvantage. India ranks 122nd on labour productivity, as per an ILO dataset, behind almost every country in this comparison. The simulation assumes Indian and Vietnamese workers are equally productive. Since they are not, the real cost gap may be even larger than 18%.

WAY AHEAD

How reforms can help India move from a slow, expensive manufacturing destination to a fast, cheap one: averaging regular hours over a longer period and reducing the overtime premium.

Every country in the simulation that is both fast and cheap permits averaging the weekly working hours over at least 17 weeks. With 17-week averaging and a 1.25x overtime premium, Indian factories would move much closer to the fast, low-cost group.

Before the labour codes took effect last year, states had moved to give factories more room to organise working time, mainly by extending the length of a workday or raising permitted overtime hours.

The OSHWC Code builds on that, giving states wider authority to prescribe hours, overtime, and rest. At least five states have set the workday length at 12 hours under their draft rules. The next reform task is to make those hours easier to schedule and more cost-effective.

Vietnam's 2021 reforms show the way. As firms diversified production under the 'China+1' strategy, Vietnam raised overtime and overall weekly working-hour limits and made rest arrangements more negotiable. The Punjab manufacturer asked how an Indian factory is supposed to compete with Vietnam. Part of the answer is to give Indian factories and workers the same freedom to organise working time that many of their global competitors have.

India has the workers and entrepreneurs to compete for manufacturing at scale. The law should stop making production time the constraint.

feedback@livemint.com
The writers are researchers at Prosperiti, a public-purpose institution that builds state capacity to increase economic freedom in India.

Factory race

Manufacturers must meet speed and cost demands

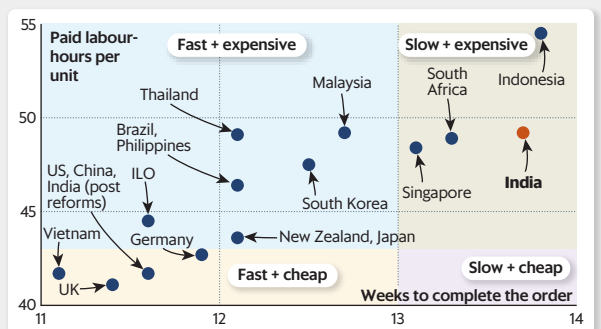
Low flexibility Country-wise ranking by flexibility of working-hour regulations

Rank	Country	Regular work (50% weight)	Overtime (33% weight)	Rest (17% weight)	Overall flexibility score
2	US	86	83	100	88
3	ILO	63	92	69	74
7	China	81	65	47	70
6	Germany	72	85	36	70
5	Vietnam	84	64	42	70
9	Brazil	79	65	14	63
12	South Korea	65	67	28	60
16	India	56	43	51	51

Scores run from 0 to 100 across working hour regulations on regular work, overtime and rest. A high score means the law sets an outer limit and leaves the arrangement within it to a factory and its workers; a low score means the law fixes the arrangement. It does not measure how long people work. The study covered a total 16 countries.

Slow, expensive

Simulation of a 500-worker electronics factory, working a single shift, to manufacture 10,000 iPhone devices



Source: Prosperiti
Graphic: Manu Choudhary/Mint

mint