FICCI QUARTERLY SURVEY ON INDIAN MANUFACTURING SECTOR – December 2015

- **Growth in Manufacturing to slowdown in Q - 3**
- **Exports and Poor Domestic Demand Conditions to Drag the Growth in Manufacturing**
- **Rupee Devaluation Led to Increased Cost of Production for Manufacturers**

New Delhi, 26 December 2015: The outlook for Indian manufacturing sector in Quarter 3 of 2015-16 looks to be weakening, as lesser percentage of respondents expect high growth to continue in Q-3 (October-December 2015-16). The percentage of respondents expecting higher growth in Q-3 has gone down to 55% as compared to 63% for Q-2 (July-September 2015-16), according to the survey.

The survey had earlier indicated revival in the manufacturing activity in Q-2 of 2015-16, which seems to be slowing down little bit in Q-3 now. The outlook on the basis of FICCI Manufacturing Survey for Q-2 of 2015-16 was more optimistic than in the current quarter. Exports are primarily responsible for this less optimistic outlook besides domestic factors like poor demand conditions, high interest cost etc.

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-3 (2015-16)	55%
Q-2 (2015-16)	63%
Q-1 (2015-16)	44%
Q-4 (2014-15)	52%
Q-3 (2014-15)	50%
Q-2 (2014-15)	62%
Q-1 (2014-15)	50%
Q-4 (2013-14)	56%
Q-3 (2013-14)	52%
Q-2 (2013-14)	48%
Q-1 (2013-14)	35%
Q-4 (2012-13)	36%
Q-3 (2012-13)	45%
Q-2 (2012-13)	44%
Q-1 (2012-13)	46%
Q-4 (2011-12)	36%

Source: FICCI Survey

FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-3 (October-December, 2015-16) for twelve major sectors namely textiles, capital goods, metals, chemicals, cement and ceramics, electronics, auto, leather & footwear, machine tools, food, tyre, and textiles machinery. Responses have been drawn from 336 manufacturing units from both large and SME segments with a combined annual turnover of over ₹3.94 lac crore (₹3.94 trillion).

In terms of order books, 44% respondents have reported higher order books for the quarter October-December 2015-16 which is almost the same as that of previous quarter, indicating a muted demand conditions, FICCI survey noted

Exports

Export outlook for manufacturing followed its trajectory downwards in Q-3 2015-16. The proportion of respondents expecting higher exports in Q-3 2015-16 is 24% as compared to 36% in Q-2 2015-16 and 33% in Q-1 2015-16. Though, the proportion of respondents expecting lower exports has also gone down from 43% in Q-2 of 2015-16 to 37% in Q-3 of 2015-16, but the scenario remains bleak as percentage of respondents expecting no change in their export level has also increased.

Capacity Addition & Utilization

In terms of investment, for Q-3 2015-16, 68% respondents as against 73-75% respondents in earlier quarters reported that they don't have any plans for capacity additions for the next six monthsimplying slack in the private sector investments in manufacturing to continue, even though there is a fall in the percentage of respondents not looking at fresh investments. Poor demand conditions, high cost of borrowing, delayed clearances and cost escalation are some of the major constraints which are still affecting the expansion plans of the respondents.

However, the current average capacity utilization as reported in the survey is around 73% for Q-2 which is less than the capacity utilizations indicated in the previous two surveys i.e. Q-4 2014-15 and Q-3 2014-15 when it was around 77%.In some sectors, average capacity utilization has almost remained same in Q-2 of 2015-16 as was in Q-4 of 2014-15. These are sectors like auto, textiles and tyres. On the other hand, capacity utilization has improved in cement, food, capital goods and leather &footwear sector.

Inventories

Inventory levels reflect poor demand conditions both in the economy and exports vis-à-vis last quarter as currently around 32% respondents reported that they are carrying more than their average inventory levels of finished goods as compared to 30% in earlier quarters. Another 56%are maintaining their average inventory levels which is slightly lower as compared to 59% of earlier quarter.

Hiring

Hiring outlook seems pessimistic in coming months as around 76% respondents are not likely to hire additional workforce in next three months. On a broader scale, this proportion is slightly less than that of previous quarter (79%) but still remains too high to consider it as any improvement.

Interest Rate

Interest rate paid by the manufacturers ranges from 8% to 18% as per the survey with average interest rate at around 11.8% per annum. 49% respondents reported availing credit at over 12% interest rates.

Sectoral Growth

Based on expectations in different sectors, the Survey pointed out that ten out of twelve sectors were likely to witness low to moderate growth (less than 10%). Two sectors namely, capital goods and auto are likely to witness strong growth of over 10% in Q-3 2015-16.

Table: Growth expectations for Q-3 2015-16 compared with Q-3 2014-15

Sector	Growth Expectation
Capital Goods	Strong
Auto	Strong
Leather and Footwear	Moderate
Chemicals	Moderate
Textiles and technical textiles	Moderate
Machine Tools	Moderate
Textiles Machinery	Moderate
Tyre	Moderate
Electronics & Electricals	Low
Food Products	Low
Cement and Ceramics	Low
Metals & Metal Products	Low

Source: FICCI Survey

Production Cost

The cost of production as a percentage of sales for product for manufacturers in the survey has increased vis-à-vis last year as over 50% respondents reported so. The primary reasons for this increased cost were devaluation in rupee and higher wage cost.

Download FICCI's quarterly manufacturing survey report: http://ficci.com/Sedocument/20345/survey-dec28-manufacturing.pdf

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