FICCI Survey on Indian manufacturing products upturn in manufacturing in Quarter 2

Improved export outlook to pull manufacturing growth

Average Interest Rate for the Manufacturers Still High and Sticky: FICCI Survey

New Delhi, 24 August 2016: FICCI's latest Quarterly Survey on Manufacturing indicates improved outlook for the sector in quarter 2 of 2016-17 (July-September) buoyed by improved outlook in exports. The survey had earlier indicated a slowdown for the first quarter of 2016-17, which seems to be waning. The proportion of respondents expecting higher growth during the July – September quarter has risen to 55% as against 53% for April – June quarter 2016-17, although, it remains much below the percentage of 60% for January – March quarter of the previous fiscal. The slight improvement in the outlook for manufacturing production in second quarter of the current financial year is attributable to various factors including somewhat better outlook for exports compared to previous quarters, and better outlook on domestic demand front too, noted FICCI Survey.

The survey that gauges the expectations of manufacturers for Q-2 (July-September 2016-17) for thirteen major sectors namely auto, capital goods, cement and ceramics, chemicals, electronics & electricals, food products, leather and footwear, machine tools, metal and metal products, metal forging, paper products, textiles and technical textiles and textiles machinery, has shown slight improvement in manufacturing sector over the last few quarters due to number of initiatives taken by Government in the last few months. Responses have been drawn from 308 manufacturing units from both large and SME segments with a combined annual turnover of over ₹4 lac crore.

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-2 (2016-17)	55%
Q-1 (2016-17)	53%
Q-4 (2015-16)	60%
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%

Source: FICCI Survey

In terms of order books, almost half (49%) respondents reported higher order books for the quarter July – September 2016-17 which is more than that of the previous quarter (38%).

Capacity Addition & Utilization

The milder improvement for the quarter gets reflected in terms of investment as for Q-2 2016-17, 73% respondents as against 75% respondents in previous quarter reported that they don't have any plans for capacity additions for the next six months. Though the proportion standing against expansion plans is still considerably high but is comparatively lower on a quarter-on-quarter basis. Uncertain economic environment, unfavourable market conditions, competition from imports, delayed clearances, inadequate infrastructure (especially availability of power) and cost escalation are some of the major constraints which are affecting the expansion plans of the respondents. The average capacity utilization as reported in the survey for the total manufacturing sector is around 76% for Q-1 2016-17, marginally above the 74% for Q-4 2015-16.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilization (%) in Q-4 2015-16	Average Capacity Utilization (%) in Q-1 2016-17
Auto	78	77
Capital Goods	71	80
Cement	80	87.5
Chemicals	87	83
Textiles	79	84
Electronics & Electricals	75	65
Food	70	57
Leather & Footwear	57	60
Metals	68	70
Textiles Machinery	60	50
Tyre*	80	NA
Paper	87	80

**NA: Not Available due to lack of data*

Inventories

Inventory levels remain high with 82% respondents maintaining either more or same levels of inventory as their average inventory levels. This is higher than previous quarter, where 76% respondents reportedly carried either same or more than their average levels of inventory.

Exports

Export outlook for second quarter's manufacturing also improved slightly as against the expectations for the first quarter. The proportion of respondents expecting higher exports in the second quarter 2016-17 rose by 5 percentage points to 41% as against 36% in 2016-17.

Hiring

Hiring outlook remains subdued in manufacturing in coming months as three quarters of the participants in Q-2 2016-17 are unlikely to hire additional workforce in next three months. The proportion remains almost similar to that recorded for Q-1 2016-17 (76%).

Interest Rate

Average interest rate paid by the manufacturers still reportedly remains high and sticky. The rate is as high as 15% as per the survey with average interest rate at around 11.5% per annum which is similar to that reported in the previous survey.

Sectoral Growth

Based on expectations in different sectors, the Survey suggests that eight out of thirteen sectors were likely to witness low to moderate growth (less than 10%). Five sectors, namely capital goods, cement and ceramics, chemicals, metal forging and paper products are likely to witness strong growth of over 10% in Q-2 2016-17.

Table: Growth expectations for Q-2 2016-17 compared with Q-2 2015-16

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

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5%

Source: FICCI Survey

Production Cost

The cost of production as a percentage of sales for product for manufacturers in the survey has risen as 49% respondents reported cost escalation while only 16% reported lower production costs.

Key Constraints for Manufacturing Sectors

Given below in tabular format the key constraints for each sector in manufacturing as shared by respondents in the survey.

Sector	Key Constraints to Growth
Capital Goods	• Rising raw material prices (Steel etc) • Shortage of working capital • Increased competition faced from imports • Lack of domestic & export demand • Shrinking exports to Africa as many of the African countries, particularly Nigeria, is having foreign Exchange restrictions.
Cement and Ceramics	• Duty-free imports of cement • Inadequate domestic coal supplies against coal linkages • Deficiency and high prices of raw materials • Sluggish domestic and export demand • Inverted duty structure
Chemicals	• Deficiency of feedstock • Sluggish domestic and export demand
Forging	• Inadequate investment in infrastructure • Clearances for coal mining which will in turn give a boost to heavy transport vehicles • Technology up gradation in MSMEs
Paper	• Inadequate public investment in infrastructure • High interest rates • High prices and deficiency of key raw materials
Auto	• Uncertainty of tax rates and policy interventions related to vehicles • Uncertainty on the long term roadmap for fuel type, vehicular emission and safety regulations for vehicles • Labour-related reforms • Shortage of working capital • Low external demand.
Textiles and Technical Textiles	• High prices of raw materials • Inverted duty structure • Labour related reforms • Low domestic and export demand • Competition from imports
Textiles Machinery	• High imports of second-hand machinery which are available domestically as well • Availability of TUFS benefit on second hand textile machinery • Need for uniform rate of excise duty on all items of textile machinery and components • Increase in customs duty on textile machinery • Absence of TUFS for the Textile Engineering Industry
Electronics & Electricals	• High prices of raw materials • Inverted duty structure

	• Competition faced from imports • Lower domestic demand • Shortage of working capital finance • Low export demand
Machine Tools	• Shortage of working capital • Lower domestic and export demand • Competition faced from imports
Food Products	• Rising prices of raw materials • Labour related reforms • Shortage of skilled labour • Lower demand
Metals & Metal Products	• Deficiency and high prices of raw materials • Deficiency of power • Lack of domestic and export demand • Competition faced from imports • Shortage of skilled labour
Leather and Footwear	• High prices of raw materials • Inverted duty structure • Deficiency of power • Lower domestic and external demand • High cost of premium for both pre- and post-shipment for ECGC guarantee

Weblink: **http://ficci.in/SEDocument/20374/MANUFACTURING-SURVEY-REPORT-August-2016.pdf**

FICCI Media Division