FICCI QUARTERLY SURVEY ON INDIAN MANUFACTURING SECTOR

November 2012

FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

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Introduction & General Outlook for the Manufacturing Sector

Production and Demand

- FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-3 (October-December 2012-13) for major sectors such as textiles, capital goods, metals, chemicals, tyres, cement, electronics, automotive, leather & footwear, machine tools, FMCG & Food, Ceramics etc. Responses have been drawn from 364 manufacturing units from both large and SME segments.
- FICCI's latest Quarterly Survey on Manufacturing sees only modest recovery in Q-3 for manufacturing sector as demand conditions reflected in order books show a marginal improvement. According to the survey, around 45% respondents felt that they expect the production to be higher in Q-3 vis-à-vis last year as compared to 44% and 46% in previous two quarters of current financial year. Most of the important sectors like Automotive, Capital Goods, Metals and Chemicals continue to expect subdued growth outlook in coming months.

Quarter	% of Respondents Expecting Higher Production in the Respective Quarter vis-à-vis last year
Q-3 (2012-13)	45%
Q-2 (2012-13)	44%
Q-1 (2012-13)	46%
Q-4 (2011-12)	36%

Source : FICCI Survey

- While the demand conditions remain subdued but a marginal improvement has been seen in Q-3 for 2012-13 as compared to Q-2 of 2012-13. In Q-3 of 2012-13, over 33% respondents reported higher order books for October-December 2012-13 as compared to 31% in Q-2 2012-13.
- The above outlook is also borne out by the fact that recently both IIP and Index of Eight Core Industries have shown some upturn in growth. Manufacturing sector grew by 2.9% in August 2012 after registering negative growth for two consecutive months of June and July 2012.
- Similarly, the index of eight core industries witnessed a growth of 5.1% in September 2012 as compared to the growth of 2.5% in September 2011, showing some signs of turn around.

Capacity Addition & Utilization

- In terms of capacity addition, around 33% respondents reported plans for capacity addition in next six months as compared to 28% in the previous survey. However, except a few sectors like leather where majority of the firms plan to add new capacities, in other sectors only very few companies have any new capacity addition plans. This indicates that investment will not pick-up at least in next two to three months.
- Also, in terms of capacity utilization around 34% respondents reported that their capacity utilization was higher in Q-3 vis-à-vis last year. This is slightly lower than the percentage of respondents reporting higher capacity utilization in Q-2. In Q-2, around 35% respondents reported higher capacity utilization levels vis-à-vis last year.

Exports

- With 54% respondents expecting exports to be higher in Q-3, scenario in export front seems to be improving a little bit. In the previous quarter only 45% respondents expected their exports to be higher than last year. However, this positive outlook in exports is also not broad based as only a few sectors like tyres, textiles and leather expect better export levels in Q-3.

Employment

- Around 70% respondents do not expect to hire new workforce in next three months indicating that investors may still be wary of expansion plans. Even in previous survey for Q-2, around 70% respondents did not have nay hiring plans for next few months.

Sectoral Growth

- Based on expectations in different sectors, the Survey pointed out that five out of twelve sectors were likely to witness low (less than 5%) growth and four sectors to witness moderate growth (less than 10% and greater than 5%) in Q-3. The sectors which are likely to witness low growth are chemicals, textiles, machine tools, metals and automotive. Sectors such as tyre, ceramics and electronics are likely to witness strong growth of more than 10% in Q-3.

Table : Growth expectations for Q-3 2012-13 compared with Q-3 2011-12

Sector	**Growth Expectation**
Chemicals	Low
FMCG & Food	Moderate
Electronics	High
Textiles	Low
Capital Goods	Moderate
Steel & Metals	Low
Automotive	Low
Cement	Moderate
Leather & footwear	Moderate
Tyre	High

Machine Tools	Low
Ceramics	High

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5% (Source: FICCI Survey)

Automotive

- The outlook for this sector has not improved since last quarters as most of the respondents reported that their production plunged by an average of 10% in July – September 2012 quarter as compared to same quarter of previous year.
- The situation does not seem to be improving in the current quarter i.e. October – December 2012 as most of the respondents expect lower production levels as compared to October – December 2011.
- Majority of respondents are expecting either lower or same number of orders in the current quarter vis-à-vis July – September 2012 quarter. This indeed is a cause for serious concern as generally this being the festive season, production should have peaked for such consumer durable items.
- On an average, the reported capacity utilization for the industry is 75% and for 80% respondents it was less than the capacity of last year. Also, majority of respondents do not have plans to add further capacity in next six months.
- Majority of respondents reported a decrease in their exports in July - September 2012 as compared to July– September 2011 and exports are likely to decline in the quarter October – December 2012 also as most of the respondents expect a decrease in exports as compared to last year.
- No new workforce hiring is coming up in next 3 months in the sector for majority of the respondents.
- For overall manufacturing, the automotive sector respondents don't foresee further slowdown in the manufacturing sector as most of the respondents either feel that growth will remain at the same level or revive. However, the industry feels that the following measures should be undertaken by the Government for revival of growth:
  - ✓ Interest rate reduction and easy availability of working capital.

  - ✓ Faster introduction of GST

- High prices of raw material, lack of domestic demand, shortage of working capital and uncertain economic environment are some of the constraints affecting growth in this sector.
- The industry has also suggested some reform measures which may be undertaken by Government to revive the growth in the manufacturing sector:
  - ✓ Easing monetary policy (interest rates, repo rate, CRR ratio etc.). Reforms to check Government fiscal deficit to avoid crowding out effect.
  - ✓ More reforms to strengthen the domestic infrastructure (road, transport, infrastructure, electricity), to control rising interest rates, fuel prices, inflation.
  - ✓ Focus on rural development to generate domestic demand in that segment
  - ✓ Need for technology transfer.
  - ✓ Alignment of manufacturing plan at national and state level.

Capital Goods

- While the sector seems to be coming out of woods in October – December quarter, still 60% respondents reported that their production has either decreased or remained at the same level for July – September 2012 quarter vis-à-vis last year. But situation seems to be improving in October – December 2012 quarter as 55% respondents expects higher level of production vis-à-vis last year.
- The order book position also presents some glimmer of hope for the sector in October – December quarter. Around 44% respondents have reported that their order books are likely to remain same in October – December 2012 as compared to July-September 2012 Quarter. 40% respondents reported higher number of orders while the rest expect fall in orders vis-à-vis July– September 2012.
- Currently, the capacity utilization in the sector is hovering at 70%. For 60% respondents the capacity utilization is either low or same as compared to previous year. Around 70%

respondents reported that they do not have any plans to add capacity in next 6 months. Some of the problem areas mentioned by industry were:

- ✓ Availability of skilled manpower
- ✓ Power shortages.
- ✓ Substantial increase in competition from imports and rising imports of used machinery

- Outlook for exports remain bleak as 70% respondents reported either same or lower level of exports in July – September 2012 quarter as compared to last year. For the current quarter also the exports outlook doesn't seem to be improving.
- 67% of the respondents in this sector indicated that they are not planning to hire new workforce.
- More than 60% respondents expect the manufacturing sector growth to remain at the same level in coming months. The industry suggested following measures to revive the growth:-
  - ✓ Easier access to foreign currency export finance in USD, Japanese Yen and Euro.
  - ✓ Availability of cheaper finance and increase liquidity in the market.
  - ✓ Increase availability of power and revive investment in infrastructure sector.
  - ✓ Expedite labour reforms.
  - ✓ Restrictions on import of used machinery, creation of R&D facilities for indigenous machinery.
- High price of raw materials, uncertain global economic environment, lack of domestic demand and competition faced from imports are some of the most significant constraints for the sector which are affecting growth of the sector.

Cement

- Cement sector seems to be inching towards high growth path as two third of the respondents reported an increase in production in July- September 2012 vis-à-vis the same quarter last year. Scenario is likely to be same in October- December where again two third of the respondents expect increased production compared to 2011.

- Almost all the respondents have reported that their order books are likely to see an upturn in October- December 2012 compared to the previous quarter.
- Capacity utilization stands at 72% in the cement sector, which is an improvement over the last year for majority of the respondents. Majority of firms are not planning to add capacity in next six months but one third who are planning to add are planning to increase their capacity maximum by 20%.
- Cement exports maintained same level in July- September 2012 compared to last year. Exports are likely to be same as last year in the next quarter also.
- Most of the firms in the cement sector are not planning to hire new work force in next three months except a few which are planning to expand their workforce moderately.
- Most of the respondents in cement sector believe that growth rate of manufacturing is likely to be moderate in 2012-13. Respondents feel that following steps need to be taken by the Government to enhance growth of the sector:
  - ✓ Investment in the infrastructure sector is required to boost the demand for cement products
  - ✓ Interest rates need to be reduced
  - ✓ Boost investor confidence through better governance
- High prices of raw materials is acting as a significant constraint for the sector. Other issues which are significantly affecting growth of cement sector are uncertainty of economic environment and lack of domestic and export demand. Some of the respondents reported deficiency of power and inadequate availability of skilled labor as factors moderately affecting their growth.

Ceramics

- Almost all the respondents reported an increase in production in July- September 2012 vis-à-vis the same quarter last year. Scenario is likely to improve further in October- December with almost all the respondents expecting increased production compared to 2011 by almost 15%.

- Almost all the respondents have reported that their order books are likely to see an upturn in October- December 2012 compared to the previous quarter.
- Capacity utilization stands at 80% in the creamics sector, which is more than that of last year for majority of respondents. Majority of firms are not planning to add capacity in next six months.
- Ceramics exports seem to have fallen in July- September 2012 compared to last year. Not much growth in exports expected in the current quarter compared to last year.
- Most of the firms in the ceramics sector are planning to hire new work force in next three months on an average by 5%.
- Most of the respondents in ceramics sector believe that the growth rate of manufacturing is likely to revive in 2012-13. Respondents feel that following steps need to be taken by the Government to enhance growth of the sector:
  - ✓ Ensure continuous power supply
  - ✓ Continuous fuel supply at reasonable prices
- Deficiency of power is acting as a moderate constraint for the sector. Availability of land for setting up new units is another problem faced by ceramics manufacturers.
- Respondents feel that Government should lower the interest rates to revive growth.

Chemicals and Pharmaceuticals Sector

- Growth is likely to be subdued in the sector in coming months. 60% of the respondents reported a fall in production in the quarter July- September 2012 vis-à-vis the same quarter last year. Scenario is not likely to improve in the current quarter (October- December 2012) as again 60% respondents are expecting lower production compared to the same quarter last year.
- Only 20% respondents are expecting higher number of orders in October- December 2012 compared to in July- September quarter.
- Capacity utilization stands at 76% in chemical and pharmaceuticals sector. Current capacity utilization is higher than last year for only 20% respondents. Also, 80% manufacturers are

not planning to add capacity in next six months. Firms in this sector are constrained by low demand and pressure on margins.

- In July- September 2012, half of the respondents reported same or increased exports vis-à-vis last year. Exports are likely to see a revival in the current quarter as 75% exporters are expecting either same or higher exports compared to the same quarter last year.
- Around 80% respondents are not planning to hire any new workforce in next 3 months.
- 60% respondents are expecting manufacturing sector's growth to further slowdown in 2012-13. However, rest of the respondents are expecting a revival in growth. Following actions need to be taken by the Government to revive growth:
    - ✓ Interest rates to be brought down in line with global market & liquidity to be improved further
    - ✓ Exchange rate needs to be stabilized
    - ✓ Inflation needs to be controlled
    - ✓ Need clarity and transparency in Government regulations on licensing and regulatory issues
- High prices of raw materials, lack of domestic and export demand, rising competition faced from imports are significantly impacting the growth of chemical sector. Deficiency of raw materials & feedstocks, labor related issues, shortage of skilled labour and shortage of working capital finance are other constraints faced by chemical and petrochemicals firms.

Electronics & Electricals

- More than 70% respondents reported higher production in July– September 2012 in comparison to the same quarter last year. However, for October - December 2012 quarter, only 60% respondents expect higher level of production as compared to October - December 2011.
- In terms of order books, outlook is not very different as over 50% respondents are expecting less number of orders in October-December 2012 in comparison to the July– September 2012.

- Capacity utilization is hovering around 65% for the sector. For 60% of the respondents, the capacity utilization is more as compared to last year. Around 85% respondents in this sector are not planning to add any capacity in next few months which is mainly attributed to economic slowdown. Sluggish demand condition is the main concern reported by the sector.
- 80% respondents reported either lower or same level of exports in July– September 2012 vis-à-vis last year. In the current quarter i.e. October - December 2012, 60% respondents are expecting either lower or same level of exports vis-à-vis same quarter of last year implying bleak export scenario for the sector.
- 85% of the respondents in this sector are not planning to hire additional work force in next 3 months.
- Around 60% of the respondents feel that growth rate of manufacturing will remain at the same level and the rest 40% expect growth to revive in coming months.
- Following measures need to be taken by the Government to revive manufacturing sector's growth:
    - ✓ Reduce interest rates
    - ✓ Provide better infrastructure
    - ✓ Speedy clearances of projects
    - ✓ Speedy implementation of GST
- Hardening of raw material prices, lack of export demand, increased competition faced from imports and uncertainty of economic environment are significantly affecting the growth of this sector.

FMCG (Fast Moving Consumer Goods) and Food Processing

- 80% respondents in FMCG and food sector reported either same or higher production levels in July- September 2012 compared to the same quarter last year. Production is likely to grow in the range of 5-10% in October- December 2012 compared to the same quarter last year indicating some level of buoyancy in demand.

- Order books of 60% of FMCG and food firms are likely to witness a positive growth in October- December compared to the July- September quarter.
- Capacity utilization stands at 72% in FMCG and food sector and is same as that of last year for most of the firms. 80% firms are not planning to increase their capacity in next six months. Only 20% firms are planning to add capacity in next six months.
- For half of the respondents, exports were lower in July- September vis-à-vis the same quarter last year. However, in October- December 2012, 75% respondents are expecting an increase in exports as compared to last year.
- 80% of the respondents in FMCG and Food sector are not planning to hire new workforce in next three months. Those who are planning to hire are planning to expand it by 10%.
- FMCG and Food sector feel that manufacturing growth rate would remain at the same level as it is today. However, following steps if taken could revive growth:
  - ✓ License and compliance procedures to be rationalised
  - ✓ Lower interest rates
  - ✓ Cost of power to be reduced

- 50% firms in the FMCG and food products sector are facing problems in production since raw materials prices are very high. Deficiency of raw materials, deficiency of power, labour related issues, lack of domestic and export demand, shortage of working capital for day to day operations, availability of skilled labour and uncertainty of global economic environment are other constraints faced by FMCG and food producers. Also, FMCG and food processing producers feel that alcohol industry is highly regulated and numbers of state excise permissions are required for execution of any alcohol sale.

Leather and Footwear

- Production for 83% respondents from Leather and Footwear sector was reported to be higher in July- September 2012 compared to the same quarter last year. Average production growth was 4% for July- September 2012. Leather sector is likely to see better growth in the current quarter (October- December) 2012 as all the respondents are expecting either same or higher production level vis-à-vis October- December 2011.

- Order books of 83% of the respondents are likely to remain same or increase in October-December 2012 compared to previous quarter.
- The average capacity utilization in this sector is reported to be 73% in July- September 2012. Most of the respondents have reported that capacity utilization is same vis-à-vis last year. Around all the respondents are planning to add capacity in next six months and addition is likely to be in the range of 10 – 40%. Leather and Footwear producers are facing following constraints in capacity addition:
    - ✓ Shortage of working capital finance
    - ✓ Shortage of power
    - ✓ Shortage of manpower, both skilled and semi-skilled
- During July- September 2012, exports for 67% of the respondents registered a higher level of growth than last year. Scenario is likely to improve in October- December quarter as all respondents are expecting either higher or same exports vis-à-vis the same quarter last year.
- Majority (82%) of the firms in the leather sector reported that they are planning to expand their workforce in next three months.
- Respondents in this sector feel that growth in manufacturing sector would either remain at the same level or would further slowdown in 2012-13. However, following steps may help in reviving growth:
    - ✓ Easier credit facility with lower interest rates.
    - ✓ Adequate power availability
    - ✓ Improve existing infrastructure especially ports
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, deficiency of power, labour issues, shortage of finance and availability of skilled manpower for their operations. Other factors acting as impediments for leather sector are

deficiency of raw materials, lack of export demand and uncertainty of global economic environment.

Machine Tool

- Machine tool industry continues to face tough times in the domestic market asmost of the respondents reported lower levels of production in July– September 2012 quarter as compared to same quarter of previous year. The average decrease is reported to be as high as 15-20%. The situation does not seem to be improving in the next quarter i.e. October - December 2012 also as compared to same quarter of previous year with an expected decrease of around 10%. Also, respondents have reported lower level of orders in October – December 2012 compared to July– September 2012.
- However, majority of the respondents reported an increase in their exports in July– September 2012 as compared to July– September 2012. The increase is reported to be in the range of 5-10%. The industry expects a similar increase for October – December 2012 vis-à-vis October – December 2011. But given the fact that the industry is dependent on domestic market more, the sector's outlook remains weak.
- Majority of the respondents believe that the growth rate of manufacturing sector is going to remain at the same level in the coming months. The industry has suggested that suitable financial schemes need to be formulated to attract the investments in the country. Also, it proposes to reduce the excise duty on machine tools to 10 percent from the current levels.
- Some of the significant constraints for this sector are shortage of working capital finance, deficiency of power, competition faced from imports, uncertainty of economic environment, prices of raw material and lack of skilled manpower.

Metal and Metal Products

- 75% respondents reported either same or lower level of production in July– September 2012 quarter as compared to same quarter of previous year. A similar situation seems to be prevailing in October – December 2012 quarter also indicating a low level of growth for the sector.

- Order books of only 33% respondents are likely to expect a positive growth for October – December 2012 as compared to the last quarter (i.e. July– September 2012). Approximately, 46% respondents are expecting same number of orders.
- Currently, the industry is operating at an average capacity utilization of around 75% and for 60% respondents it is same as that of last year. Around 75% respondents reported that they are not planning to increase their capacity in next 6 months. Some of the problem areas mentioned by the industry were:
  - ✓ Fluctuations in exchange rate
  - ✓ Availability of Land
  - ✓ Delays in Govt. approvals for major expansion of projects.
  - ✓ Power shortages
  - ✓ Inadequate availability of raw materials like iron ore, coal, ore and transportation of these materials
  - ✓ High raw material cost resulting in a significant increase in the cost of finished product
- In July– September 2012 quarter only 40% respondents reported higher levels of exports vis-à-vis July– September 2011 and 30% reported same level of exports as compared to last year. In the current quarter, half of the respondents expect lower or same level of exports as compared to the same quarter last year.
- Over 80% respondents reported that they do not have any plans to hire new workforce in next 3 months.
- Close to 70% of the respondents feel that growth rate will slowdown further in manufacturing in coming months. The following measures have been suggested by the industry to revive growth of the sector:
  - ✓ Increase in government investments
  - ✓ Government should ensure faster project clearances
  - ✓ Improve power availability to the industry.

- ✓ Reduce interest rates.
- ✓ Ensure availability of basic inputs like coal, iron ore, manganese ore, on reasonable prices.
- ✓ Natural Gas is one of the key raw material and should be made available on long term allocation basis.

- Most of the respondents feel higher prices of raw material, deficiency of power, availability of skilled manpower and lack of domestic demand are some of the other crucial impediments to the growth of the sector.

Textiles

- While the sector seems to be out of crisis, but growth is going to be a concern in coming months.
- In the quarter July- September 2012, 52% respondents reported a rise in their production levels vis-à-vis the same quarter last year. However, only 39% respondents are expecting higher production in October- December 2012 implying that the sector may witness slowdown in the current quarter.
- In October- December 2012, only 26% of textile firms are expecting to have higher orders vis-à-vis July- September 2012 which only confirms the slowdown mentioned above.
- Average capacity utilization is hovering around 80% in the textiles sector with 35% of the respondents operating at a capacity less than that of last year. Also, majority of respondents (57%) are not planning to increase their capacity in next 6 months but some are planning to increase their capacity in the range of 5-40%. Firms in textiles sector are facing following problems in adding capacity:
    - ✓ Levy of entry tax in different States
    - ✓ Less orders in hand
    - ✓ Competition faced from duty free imports
    - ✓ Shortage in power and high power tariff
    - ✓ Rising cost of capital

- Half of the respondents have reported that their exports in July- September 2012 were lower than the same quarter last year. Scenario is likely to improve in the current quarter as 73% respondents are expecting either higher or same level of export orders vis-à-vis last year.
- 65% of the respondents in the textiles sector are not planning to hire new workers in the next three months. Only a few respondents in the textiles sector are planning to hire new workforce.
- 74% respondents are expecting manufacturing growth to further slow down or remain at same level but they feel following incentives if provided could enhance growth:
    - ✓ Supporting new units by easy banking facilities
    - ✓ Credit availability at lower rates
    - ✓ Need to have a strong focus on improving infrastructure & utilities
    - ✓ Amend labour laws to make them industry friendly
    - ✓ Excise duty to be brought down to 4% on synthetic fibres
    - ✓ Need to bring GST at the earliest
    - ✓ Central Government to ensure adequate availability of coal for power generation especially to those states which are facing massive power shortage eg. Andhra Pradesh & Tamil Nadu.
    - ✓ Skill development
- Units in the textiles sector are significantly affected by deficiency of power and uncertainty of economic environment. Other major issues faced by textile sector are high prices of raw materials, labour related issues, shortage of finance, lack of domestic demand and availability of skilled manpower.

Tyre

- For July - September 2012 quarter, most of the respondents reported higher production levels. On an average, the increase is reported to be 10%. A similar situation seems to be prevailing for October - December 2012 quarter also, as most of the respondents expect their production to increase by over 10% as compared to the same quarter of 2011.

- Almost all the respondents expect same number of orders in the current quarter vis-à-vis July – September 2012.
- The average capacity utilization in the tyre industry is reported to be 90%. It is reported to be same as last year for most of the respondents. Also, majority of the respondents are not planning to add capacity in next 6 months.
- On exports front, most of the respondents have reported an increase for July-September 2012. The average increase reported is around 20%. A similar scenario is likely to prevail in October – December 2012 quarter also with exporters expecting an average increase of over 15% vis-à-vis October – December 2011. In the wake of slowdown in domestic automotive sector, export demand has enables the sector to sustain growth.
- The respondents in tyre industry are not planning to add workforce in next 3 months.
- Almost all the respondents in the sector believe that manufacturing sector is going to remain at the same level in the coming months. Respondents feel that rolling out more reform measures and easing credit availability and lowering credit cost by the Government can enhance growth of the sector.
- Deficiency of power, labour related issues and uncertainty in economic environment are some of the most significant constraints for the sector.