FICCI QUARTERLY SURVEY
ON
INDIAN MANUFACTURING SECTOR

May 2014

FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

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Introduction & Quarterly Outlook for the Manufacturing Sector

Production and Demand

- FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-1 (April-June 2014-15) for fourteen major sectors namely textiles, capital goods, metals, chemicals, cement, electronics, automotive, leather & footwear, machine tools, Food processing, Paper, tyre, textiles machinery, ceramics and others. Responses have been drawn from 352 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 3.75 lac crore.
- FICCI's latest Quarterly Survey on Manufacturing for first quarter of 2014-15, indicates moderation in the manufacturing activity in Q-1 of 2014-15 as compared to Q-4 of 2013-14. The outlook on the basis of FICCI Manufacturing Survey for Q-1 2014-15 is less optimistic than in Q-4 2013-14 for the manufacturing sector. However, at the same time growth is expected in Q-1.
- This is also reflected in the Order books of the manufacturers. The demand seems to have slowed down as a result of which moderation in manufacturing activity is expected. While 44% respondents reported higher order books for January-March 2013-14 quarter in the last survey, but for this quarter only 36% respondents have reported higher order books for April-June 2014-15.
- This time it is just not domestic factors but more importantly on export front the outlook seems to be weakening as a result of which manufacturing growth is likely to be pulled down.

Quarter	% of Respondents Expecting Higher Production in the First Quarter vis-à-vis Respective Last Year's Quarter
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

Capacity Addition & Utilization

- In terms of investment, it remains subdued in manufacturing sector as was the case for previous quarters also. Though, in terms of investment the outlook seems to be slightly better than the previous quarters but it remains pessimistic. For Q-1 2014-15, 69% respondents, as against 71% respondents in Q-4 and 72% respondents in Q-3 of 2013-14, reported that they don't have any plans for capacity additions for the next six months. This could hardly be construed as any upturn in investment activity as of now.
- In many sectors, average capacity utilization has remained same in Q-4 of 2013-14 as was in Q-3 of 2013-14. These are sectors like Capital Goods, Chemicals, Metals, Textiles Machinery, Leather & footwear and Paper. On the other hand capacity utilization has slightly improved in Q-4 like in Auto and Cement.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%) in Q-4 2012-13	Average Capacity Utilisation (%) in Q-1 2013-14	Average Capacity Utilisation (%) in Q-2 2013-14	Average Capacity Utilisation (%) in Q-3 2013-14	Average Capacity Utilisation (%) in Q-4 2013-14
Auto	73	72	60	70	73
Capital Goods	68	70	70	70	70
Cement	77	75	73	65	72
Chemicals & Fertilizers	74.5	77	78	79	80
Textiles	81	80	78	83	79
Electronics & Electricals	58	56	60	60	75
Food Processing	80	75	86	80	78
Leather & Footwear	73	82	71	80	80
Metals	66	63	70	70	70
Textiles Machinery	NA	NA	60	60	60
Tyre	NA	NA	60	60	80
Paper	NA	NA	NA	80	80

- The current average capacity utilization as reported in the survey is around 76% for Q-4 2013-14 as against 74% in Q-3 of 2013-14 and 70% in Q-2 of 2013-14.

Inventories

- Looking at the inventory levels, currently around 29% respondents reported that they are carrying more than their average levels of inventories (as compared to 32% in Q-4, 24% in Q-3 and 26% in Q-2 of 2013-14) and another 58% are maintaining their average levels of inventories (as compared to 52% in previous quarter).

Exports

- Export outlook for manufacturing has weakened in Q-1 2014-15. In the previous survey, outlook on export front remained positive and seemed to have improved somewhat in Q-4, which does not seem to be the case now. The proportion of respondents expecting higher exports in Q-1 2014-15 (April-June 2014-15) has fallen to 36% as against 58% in Q-4 (Jan-Mar 2013-14) and 48% in previous quarter (Q-3) and 52% in Q-2 i.e. July-Sep 2013-14.

Hiring

- Over 75% of the respondents are not likely to hire additional workforce in next three months. This proportion is more than that of the previous quarter (70%), and overall the manufacturing units are not expected to add significantly to their existing workforce in coming months.

Interest Rate

- Interest rate paid by the manufacturers ranges from 8 to 16% as per the survey with average interest rate at around 12% per annum. 68% respondents are availing credit at over 12% average interest rates.

Sectoral Growth

- Based on expectations in different sectors, the Survey pointed out that five out of fourteen sectors were likely to witness low growth (less than 5%). Only three sectors namely, leather, chemicals and ceramics are expected to have a strong growth of over 10% in April-June 2014-15 and rest all the sectors likely to witness moderate growth.

Table : Growth expectations for Q-1 2014-15 compared with Q-1 2013-14

Sector	Growth Expectation
Capital Goods	Low
Automotive	Low
Machine Tools	Low
Cement	Low
Steel & Metals	Low
Electronics & Electricals	Moderate
Tyre	Moderate
Paper	Moderate
FMCG/Food Products	Moderate
Textiles Machinery	Moderate
Textiles	Moderate
Chemicals	Strong
Ceramics	Strong
Leather & footwear	Strong

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

Automotive

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investment for Expansion**	**Hiring**
Bleak Outlook	Bleak Outlook	Average levels of inventory	Expansion not expected in next 6 months	Bleak Outlook

- Automotive sector especially the components segment has experienced slowdown in recent times and more than 80% respondents in the sector reported lower or same level of production in January - March 2014 vis-à-vis same quarter of 2013.
- For the current quarter i.e. April - June 2014 also 67% respondents expect their production level to either fall or remain at the same level as compared to the same quarter of previous year. The order books also indicate slowdown in the sector as 83% respondents expect lower orders in April – June 2014 as compared to January – March 2014.
- On an average, the industry is operating at a capacity of 73% and majority do not have plans to add further capacity over next six months.
- Scenario seems to be somewhat same on exports front also with most of the respondents reporting same or lower exports in January - March 2014 and April – June 2014 vis-a-vis respective quarters of January – March 2013 and April – June 2013.
- Majority of the respondents reported to be maintaining their average inventory levels in January - March 2014 quarter.
- Profit margins have also been falling for some respondents in January – March 2014 as compared to the same quarter of last year.
- More than 80% respondents do not have any plans to hire additional workforce.
- The units in the sector reported that they are getting credit in the range of 9-14%.
- The industry doesn't expect the manufacturing sector to worsen further in near future as most of them expect the sector to either revive or continue to grow at the same level. The sector has suggested that following issues need to be addressed to revive industrial growth:

- ✓ Improve liquidity in the market
- ✓ Reduce interest rates & bring down inflation
- ✓ Increase infrastructure spending
- ✓ Introduce new incentive schemes

- Some of the significant constraints for the sector are uncertainty of economic environment and lack of domestic demand.

Capital Goods

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investment for Expansion**	**Hiring**
Slight Improvement Expected	Bleak Outlook	Average levels of inventory	Expansion not expected in next 6 months	Bleak Outlook

- Half of the respondents reported slight improvement in their production for January – March 2014 quarter vis-à-vis January – March 2013 whereas 30% respondents reported fall in their production.
- Similar situation seems to be prevailing in the current quarter i.e. April - June 2014 as well with 50% respondents expecting improved but subdued growth in production level vis-à-vis April – June 2013.
- 90% respondents have reported that their order books are likely to either improve or remain same during April - June 2014 as compared to January - March 2014 quarter.
- Currently, the capacity utilization in the sector as reported is hovering at 70% and for around 45% respondents the capacity utilization is more than that of 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 are as follows:
  - ✓ Shortage of skilled labour
  - ✓ Unfavourable market sentiments

- ✓ Substantial increase in competition due to higher production capacity and reduction in orders particularly from the industrial sector

- For 40% of the respondents, exports were less in January - March 2014 vis-à-vis the same quarter last year. Another 40% reported higher level of exports in this period. For April - June 2014 quarter 60% respondents expect exports to remain unchanged as compared to April – June 2013.
- Inventory levels are neither too high nor low and 60% respondents seem to be maintaining their average inventory levels.
- Half of the respondents have reported decline in their profit margins whereas the other half have declared increased profit margins for January – March 2014 vis-à-vis January – March 2013.
- Around 64% respondents in this sector indicated that they are not planning to hire new workforce. Rest, reported plans of hiring workforce in the range of 5-15%.
- On an average, the industry reported to be availing credit at an interest rate of around 13.5%.
- Capital Goods sector is not very hopeful of recovery in manufacturing growth rate in near future as only 20% respondents expect a revival in the sector. 72% respondents expect that the growth would remain at the same level in the coming months. However, following suggestions have been proposed to revive growth in the sector:
    - ✓ Raw material availability at reasonable cost
    - ✓ Incentives for infrastructure projects and cold chain segments
    - ✓ Speedy GST implementation
    - ✓ Measures to improve quality education so that employable labour and technical skill is available
    - ✓ Reduce interest rates
- Increased competition faced from imports, uncertainty of economic environment, lack of domestic & export demand and volatility in prices of raw material are some of the important constraints for the sector which are affecting its growth. Respondents also mentioned that poor road infrastructure makes it difficult to transport heavy equipments.

Cement Sector

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement Expected	Improvement Expected	Average levels of inventory	Capacity addition expected in next 6 months	Not much change in outlook

- In this sector also, outlook seems to be improving. 80% respondents reported higher output in the January- March 2014 quarter vis-à-vis last year. Growth is likely to continue in Cement Sector in the April- June quarter as 80% respondents expect same or higher production levels vis-à-vis last year.
- Around 60% respondents have reported that their order books are likely to see an improvement in April- June 2014 compared to previous quarter.
- Capacity utilization is hovering around 72% in cement sector, which is more than that of last year for 60% respondents. Majority of the firms are planning to add capacity in next six months by 3-13%. Cement producers are facing problems in getting various clearances for their projects like mining leases, land acquisition, environment and forest clearances.
- While exports are not significant part of the industry but for half of the respondents, exports of cement have improved in January- March 2014 compared to last year. Scenario is likely to remain same in April- June 2014 as half of the respondents are expecting higher exports and other half is expecting lower exports.
- For almost all the respondents, their inventory level is same as their average inventory level.
- Most of the firms in cement sector are not planning to hire new work force in next three months and only a few are planning to increase their workforce that too only marginally.
- More than half of the respondents in cement sector believe that the growth rate of manufacturing is likely to remain at same level in coming months of 2014 whereas another 40% are of the view that the sector may revive in coming months. Following steps need to be taken by Government to enhance growth of the sector:

- ✓ More investments in public infrastructure sector is required to boost demand for cement and also there is a need to speed up project clearances
- ✓ Interest rates need to be reduced
- ✓ Exchange rate stability
- ✓ Government should reduce interest rates on housing loans to give a boost to the sector

- High prices of raw materials, deficiency of power, sluggish domestic demand and uncertain economic environment are acting as significant constraints for the sector. Some of the respondents reported deficiency of raw materials, labor related issues, low export demand and inadequate availability of skilled labor as factors moderately affecting their growth.

Ceramics Sector

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
No growth expected	Bleak Outlook	Higher than average levels	Expansion not expected in next 6 months	Bleak outlook

- All the respondents reported same or increased levels of production in January- March 2014 vis-à-vis the same quarter last year. Scenario is likely to be same in April- June quarter with all the respondents expecting same or increased production compared to 2013.
- However, all the respondents have reported that their order books are likely to see a fall in April- June 2014 compared to the previous quarter which means growth could slow down in next few months.
- Capacity utilization stands at 80% in the ceramics and Refractories sector, which is same as that of last year for 50% respondents and more than last year for another 50%. Majority of firms are not planning to add capacity in next six months.

- Export outlook remains bleak. Ceramic exports have fallen for 50% respondents and have remained same for another 50% in January- March 2014 compared to last year. Exports are likely to fall compared to last year in April- June 2014 quarter.
- For all the respondents, inventory of finished goods for the current quarter i.e. January- March 2014 is higher than their average inventory levels.
- Majority of the reporting firms in the ceramics sector are not planning to hire new work force in the next three months.
- Around 50% of the respondents in the ceramics sector believe that the growth rate of manufacturing is likely to revive in next six months. Following are the suggestions for the Government to enhance growth of the sector:
    - ✓ Investment in the infrastructure sector
    - ✓ Ensure continuous power supply and fuel supply
- Inadequate power is acting as a significant constraint for the sector. Other issues which are affecting growth of cement sector are high prices of raw materials, labor related issues, shortage of finance, sluggish domestic and export demand, competition faced from imports, uncertain economic environment and lack of skilled labor.

Chemicals and Fertilizers

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement expected	Improvement expected	Average levels of inventory	Expansion not expected in next 6 months	Bleak outlook

- 83% respondents reported either same or higher output in the January- March 2014 vis-à-vis the same quarter last year. Scenario is likely to improve in April- June 2014 as all the respondents are expecting same or higher output compared to April- June 2013.
- 83% respondents are expecting either same or higher number of orders in April- June 2014 in comparison to the last quarter (January- March 2014).

- Capacity utilization stands at 80% for this sector. Currently, the capacity utilization is higher than last year for 42% of the respondents. Majority of the manufacturers are not planning to add capacity in next 6 months. Chemicals and fertilizer producers are facing delay in getting environment clearances in capacity addition.
- 63% of the respondents reported exports in January- March 2014 were either same or higher in comparison to January- March 2013. Exports are likely to improve in April- June 2014 as 75% of the exporters are expecting same level or growth in exports vis-à-vis the year ago quarter.
- For 73% respondents, the inventory of finished goods is the same as their average level. For another 18%, inventory level is lower than their average inventory level.
- Most respondents are not planning to hire additional workforce in next 3 months.
- For some manufacturers in chemicals and allied sector credit is available at rate of interest as high as 14%.
- 50% of the respondents feel that the growth rate of manufacturing sector will continue to remain at same level in coming months while the rest of them are hopeful that the growth rate would revive in coming months. Following measures are required to revive growth:
  - ✓ Exchange rate stability
  - ✓ Interest rate needs to be lowered & liquidity needs to be improved
  - ✓ Fast track clearances from various Government authorities especially environment clearances
  - ✓ Early implementation of GST
  - ✓ Improvement in infrastructure, in particular port infrastructure
- High prices of raw materials and uncertain economic environment are significantly affecting growth of the sector.
- Deficiency of raw materials, deficiency of power, labor issues, shortage of working capital, lower domestic and export demand, competition from imports and availability of skilled manpower are amongst the other constraints affecting the growth in this sector.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investment for Expansion**	**Hiring**
Bleak outlook	Bleak outlook	Average levels of inventory	Expansion not expected in next 6 months	Bleak outlook

- 60% respondents reported same or lower production levels in January - March 2014 in comparison to the same quarter of last year. On an average the decrease is reported to be -5.5%. Outlook for current quarter has not changed much with majority expecting same or lower production levels in April - June 2014 quarter vis-à-vis same quarter of last year. The expected fall in production is reported to be around 2%.
- 50% respondents expect higher number of orders in April - June 2014 in comparison to January - March 2014.
- Current capacity utilization is around 75% for electronics industry and 70% respondents do not have any plans to add any fresh capacity in next few months.
- Most of the respondents reported either lower or flat growth in exports in January - March 2014 and April - June 2014 quarters as compared to the respective quarters of last year.
- 60% respondents have maintained average inventory levels during January – March 2014.
- 72% respondents reported no plans of hiring additional work force in next 3 months. The rest are planning to hire in the range of 6-10%.
- On an average the electronics industry respondents are getting credit at 12%.
- 75% Respondents in electronics sector expect the manufacturing sector to continue growing at the same level in the next six months. FTA remains an area of concern for this sector and industry respondents have sought review of FTAs in some cases and also pressed for stricter enforcement of rules of origin to prevent circumvention. Following other suggestions were made:
    - ✓ Reduce cost of capital by lowering interest rates
    - ✓ Improved availability of credit

- ✓ Aggressive push to infrastructure development

- Hardening of raw material prices, lack of domestic and export demand are significantly affecting the growth of this sector.

Food Processing

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement expected	No growth expected	Average levels	Capacity addition expected in next 6 months	Improvement expected

- Almost all the respondents in food processing sector reported growth in production in January- March 2014 compared to the same quarter last year. Production is likely to grow in April- June 2014 quarter also as again all the respondents are expecting same or higher production vis-à-vis last year.
- Order books of all the food processing firms are likely to remain same or show an improvement in April- June compared to January- March 2014 quarter.
- Capacity utilization stands at 78% in food processing sector and is higher than last year for half of the firms. Also, 50% firms are planning to increase their capacity in next six months. For half of the respondents, exports were higher in January- March 2014 vis-à-vis the same quarter last year. In April- June 2014, scenario is likely to remain same as again 50% respondents are expecting an increase in exports as compared to last year.
- For all the respondents their current inventory level is same as their average inventory level.
- 50% of the respondents in food processing sector are planning to hire new workforce in next three months by 10%.
- Credit is available to food sector at the rate of interest ranging between 8.75-11%.
- According to most of the respondents, growth in manufacturing sector is likely to remain at same level in 2014. Following suggestions were made by respondents from the sector on Policy front to revive growth :

- ✓ Need for uninterrupted and adequate power supply
- ✓ Reduce electricity tariffs
- ✓ Easier credit facility with lower interest rates
- ✓ Reform in Labor laws

- Food Processing firms are having problems in production since prices of raw materials are rising and due to shortage of skilled labor. Though moderately, food processing are affected by the following factors also:
  - ✓ Deficiency of raw materials
  - ✓ Deficiency of power
  - ✓ Labour related issues
  - ✓ shortage of working capital
  - ✓ Competition faced from imports
  - ✓ Uncertain Economic Environment

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement expected	Improvement expected	High levels of inventory still continuing	Capacity addition expected in next 6 months	Improvement expected

- Leather is another segment of manufacturing that has shown improvement over the last few months. 80% respondents in leather and footwear sector reported either same or higher output in the January- March 2014 vis-à-vis the same quarter last year. Leather and Footwear sector is likely to see further growth in the current quarter April – June 2014 as all the respondents are expecting higher production vis-à-vis April – June 2013.
- Order books of almost all respondents are likely to show a rise in April – June 2014 compared to previous quarter.
- The average capacity utilization in this sector is reported to be 80% in January- March 2014 which is more than that of last year for 80% of the respondents. Around 80% of 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
- ✓ Labor issues

- During January- March 2014, exports of 60% of the respondents registered a growth. Scenario is likely to improve in April – June 2014 quarter as all the respondents are expecting either higher or same exports vis-à-vis the same quarter last year.
- Despite improvement in outlook, inventory level of 60% of the respondents is higher than their average inventory level. Rest of the respondents reported either same or lower inventory levels.
- Majority of the firms in leather sector reported that they are planning to expand their workforce in next three months. Some have reported that they are looking at increasing workforce by around 14%.
- Firms in the sector reported to be availing credit at the rate of interest as high as 15%.
- 60% respondents in the sector expect same level of growth in manufacturing sector in coming months of 2014. However, following issues need to be addressed by Government to revive growth:
  - ✓ Delays in VAT refund
  - ✓ Simplification and rationalization of labor laws
  - ✓ Easier credit facility with lower interest rates for SMEs
  - ✓ Stable power supply
  - ✓ Stabilization of inflation
  - ✓ Exchange rate stability
  - ✓ Animal farming to be supported by Government to provide feedstock for the sector
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials and deficiency of raw materials, shortage of working capital finance, labor related issues, uncertainty of economic environment and availability of skilled manpower. Another factor acting as impediment for leather sector is inadequate power.

Machine Tool Industry

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Improvement Expected	Not reported	Not reported	Not reported

- Most of the respondents reported lower levels of production in January - March 2014 quarter as compared to previous year. But, in the current quarter i.e. April - June 2014, respondents are expecting an increase in production levels by 2-5% as compared to the same quarter of previous year. This has also been reflected in the order books of the respondents with most of them expecting their order books to improve for the quarter April - June 2014 compared to January - March 2014.
- Scenario is slightly better on exports front. Majority of the respondents reported that Machine Tools exports for January - March 2014 were higher by 5% than exports of January – March 2013. For April - June 2014 also, exports are likely to be higher as compared to the corresponding quarter of the previous year. The increase is expected in the range of 5-8%.
- Majority of the respondents have a positive outlook for the growth rate of manufacturing sector in the coming months.
- Some of the significant constraints for this sector are shortage of working capital finance, deficiency of power, lack of domestic demand, competition faced from imports, lack of skilled labour and uncertainty of economic environment.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
No growth expected	No growth expected	Average levels of inventory	Expansion not expected in next 6 months	Bleak Outlook

- 55% respondents from this sector reported either lower or same levels of production in January - March 2014 quarter as compared to same quarter of previous year. For the current quarter i.e. April - June 2014, more than 70% respondents are expected to witness same growth levels as of April - June 2013.
- More than half of the respondents are expected to receive same number of orders in the quarter April - June 2014 compared to the last quarter (i.e. January - March 2014).
- Currently, the industry is operating at an average capacity utilization of 70% and for 55% respondents it is same as that of last year’s capacity utilization. Around 90% respondents reported that they are not planning to increase their capacity in next 6 months. Key problem areas mentioned by respondents were:
    - ✓ Shortage of power and low demand
    - ✓ Raw material shortage and high prices of raw material
- In January - March 2014 quarter, 50% respondents have reported same levels of exports vis-à-vis January - March 2013 and similar situation seems to be prevailing in the current quarter also.
- 55% respondents reported that they expect to maintain average inventory levels for April - June 2014.
- 70% respondents reported that they do not have any plans to hire new workforce in next 3 months.
- There has been mixed response on profit margins. While some respondents have experienced increase in their profit margins, there are some who have reported loss for January – March 2014 quarter as compared to profit in January – March 2013.

- On an average, the respondents reported to be availing credit from the banks at over 13.5% p.a. rate of interest.
- Close to 75% respondents feel that growth rate will remain at the current levels in coming months. However, the industry suggested the following to revive growth of the sector:
  - ✓ Lower interest rates and power rates.
  - ✓ Infrastructure development
  - ✓ Improve power and raw material availability to the industry.
  - ✓ Faster clearances of projects at State and Central government level
  - ✓ Exchange rate stability
- Most of the respondents feel high prices of raw materials, deficiency of raw material and power, lack of domestic demand and uncertainty of economic environment as the most important constraints for the industry.

Paper

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investments for Expansion**	**Hiring**
Improvement expected	Improvement expected	High levels of inventory	Capacity addition expected in next 6 months	Bleak outlook

- In January- March 2014, production for paper sector was higher than that of last year. Production is likely to be higher in the current quarter, April- June 2014 and register a growth of 10% vis-à-vis April- June 2013.
- Order books of paper manufacturers are likely to remain same in April- June 2014 as January- March 2014 quarter.
- Capacity utilization stands at 80% in paper sector which is more than that of last year for most of the producers. Also, most of the producers are planning to expand their capacity in next few months by as much as 10%.

- Paper exports were higher in January- March 2014 as compared to the same quarter last year. In April -June 2014 quarter respondents in this sector are expecting significantly higher exports than last year.
- The inventory level in paper sector is higher than their average inventory level.
- Most respondents in the paper industry are not planning to hire workforce in near future.
- Paper manufacturers reported to be availing credit in the range of 10 -12% rate of interest.
- Paper manufacturers expect the same level of manufacturing growth in coming months of 2014. It has suggested that infrastructure development and faster decision making at Government level can revive manufacturing sector's growth rate.
- Deficiency of raw materials, high prices of raw materials, lower domestic demand, competition faced from imports, un-availability of skilled manpower and uncertainty of economic environment are significantly constraining paper manufacturers. Shortage of finance and low export demand are also affecting the paper industry.

Textiles

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement Expected	Bleak outlook	Average levels of inventory	Expansion not expected in next 6 months	Not much improvement expected

- Over the last few months, this is one sector which has shown some improvement. In January- March 2014, 90% respondents in textiles sector reported increased or same production levels. Again, 90% respondents are expecting same or higher production in April-June 2014 implying that the situation will remain same vis-à-vis the last quarter.
- In April- June 2014, 65% of textile respondents are expecting either same or higher number of orders as in January- March 2014 indicating a recovery in demand conditions.
- Average capacity utilization is hovering around 79% in textiles sector with almost half of the respondents operating at a capacity utilization of more than that of last year. However,

majority of respondents (75%) are not planning to increase their capacity in next 6 months. A few are planning to increase their capacities by over 10%. Firms in textiles sector are facing following problems in adding capacity:

- ✓ Shortage of skilled manpower
- ✓ Power shortage
- ✓ High cost of capital
- ✓ Uncertainty in market conditions

- 58% respondents reported that their exports in January- March 2014 were higher than the same quarter last year. In April- June 2014 exports are likely to see a dip as only 32% respondents are expecting higher exports vis-à-vis last year. Export outlook looks bleak at least on immediate basis.
- 75% of the respondents in textiles sector have reported that their current inventory level is same as their average inventory level. Another 20% respondents have reported higher inventory.
- 75% of the respondents are not planning to hire new workers in next three months and rest of the respondents are planning to increase workforce by 5%.
- Cost of credit remains high with manufacturers reported getting credit at the rate of 10-15.7%.
- Half of the respondents are expecting manufacturing growth to remain at same level and another twenty percent are hopeful that it would revive in coming months. But following suggestions are made to enhance growth:
    - ✓ Easy availability of finance at lower interest rates
    - ✓ Improved power supply at reasonable rates
    - ✓ Amend labour laws to make them industry friendly especially for seasonal industry like garments
    - ✓ Need to have a strong focus on improving infrastructure & utilities like Ports
    - ✓ Exchange rate stability
    - ✓ Export packing credit subvention should be allowed to yarns on the lines of garment industry

- Units in textiles sector are significantly affected by high prices of raw materials/intermediates, deficiency of power, lack of skilled manpower, low export demand and uncertainty of economic environment. Other issues faced by textile sector are shortage of finance, labour related issues, low domestic demand and competition from imports.

Textile Machinery

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investment for Expansion**	**Hiring**
Improvement in Outlook	No growth	Higher than Average levels	Expansion not expected in next 6 months	Bleak Outlook

- Almost all the respondents in textile machinery sector have reported an increase in production for January – March 2014 quarter vis-à-vis same quarter in 2013. The situation seems to be continuing in the current quarter i.e. April - June 2014 also. The increase in production is expected to be around 5-10 %.
- However, on exports front the situation remains status quo for both January - March 2014 quarter and April - June 2014 quarter as compared to corresponding quarters of 2013.
- No change is expected in the order books of most of the respondents in April - June 2014 as compared to January - March 2014 quarter.
- The current capacity utilization in the sector is in the range of 50-70% which is same as that of last year for most of the respondents. Also, respondents from textile machinery industry do not have plans to add capacity in next six months.
- Most of the respondents reported that they have maintained higher inventory levels than the average level during January – March 2014.
- Respondents in this sector have reported that they have no plans to hire new workforce in next 3 months.

- Majority of the respondents in the sector believe that growth rate of manufacturing sector is going to remain at the same level for next few months.
- Some of the major challenges for this sector are increased competition faced from imports and lack of skilled labour.

Tyre Industry

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investment for Expansion**	**Hiring**
Subdued Increase expected	Improvement in Outlook	Not reported	Expansion not expected in next 6 months	Bleak Outlook

- For January - March 2014 quarter, most of the respondents reported higher, though subdued, production as compared to January - March 2013. In the current quarter i.e. April – June 2014 also, production is expected to slightly increase vis-à-vis April - June 2013 mainly due to better performance on exports front.
- The capacity utilization for respondents in tyre industry is in the range of 80-90%. It is more or less same as that of last year for most of the respondents. Also, majority of respondents are not planning to add capacity in next 6 months.
- On exports front, most of the respondents reported either an increase or same level for both January – March 2014 and April – June 2014 as compared to same quarters in 2013. In April - June 2014 quarter, tyre manufacturers expect an increase of 10% on an average as compared to same quarter of 2013.
- The tyre industry is not planning to hire additional workforce in next 3 months as per the respondents.
- Respondents in this sector are getting credit in the range of 9-10%.
- Most of the respondents in the sector believe that manufacturing growth rate is expected to either revive or remain at same level in the coming months.

- Tyre sector is significantly constrained by labour related issues, low domestic demand and uncertainty in economic environment.