FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

December2015

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-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 336manufacturing units from both large and SME segments with a combined annual turnover of over ₹3.94lac crore (₹3.94 trillion).
- FICCI's latest Quarterly Survey on Manufacturing indicates slowdown in manufacturing sector's growth for the Quarter 3 (October-December 2015-16). 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 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).
- The outlook on the basis of FICCI Manufacturing Survey for Q-2 of 2015-16was moreoptimistic 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.
- 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.

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

<u>Capacity Addition & Utilization</u>

- 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 months implying 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 affecting the expansion plans of the respondents.
- 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.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilization (%) in Q-2 2014-15	Average Capacity Utilization (%) in Q-3 2014-15	Average Capacity Utilization (%) in Q-4 2014-15	Average Capacity Utilization (%) in Q-1 2015-16*	Average Capacity Utilization (%) in Q-2 2015-16
Auto	70	80	75	NA	75
Capital Goods	70	80	65	NA	67
Cement	80	75	65	NA	78
Chemicals & Fertilizers	76	80	87	NA	85
Textiles	82	85	82	NA	82

Electronics & Electricals	70	70	70	NA	65
Food	82	60	65	NA	80
Leather & Footwear	65	65	68	NA	70
Metals	75	75	70	NA	67
Textiles Machinery	60	60	60	NA	55
Tyre	80	80	80	NA	80

NA: Not Available Due to lag in the Survey

- However, the current average capacity utilization as reported in the survey is around73%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%.

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 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.

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.

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

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 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.

Auto

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Bleak Outlook	Average levels of inventory	Expansion expected in next 6 months	Moderate Hiring Expected

- TheOctober-December 2015 quarter saw halfof the respondents reporting increased production levels as compared to the same quarter of previous year. While for a third, the order books showed improvement in the October-December quarter, an equal proportion of the respondents reported a fall in the same. While the Q-3 looks optimistic, but the survey has not factored in the announcements made by the Hon'ble Supreme Court and National Green Tribunal on diesel vehicles ban as the survey was conducted before the announcements.
- On an average, the industry is operating at a capacity of 75% and for more than four-fifths of the respondents, it is higher or same than that of last year. Also, half of the respondents plans to add capacity inthe next six months.
- However, on the exports front the scenario is bleak as 40% of the respondents reported the quantum in October-December 2015 quarterto be at par with the levels of the corresponding quarter of the previous year while another 40% reported a fall.
- 50% of the respondents reported to be maintaining their average inventory levels.
- 67% respondents reportedly plan to hire additional workforce in the next three months by an average of about 5%.
- On an average the industry is getting credit at approximately 10% interest rate.
- The industry offers a "mixed-bag" of expectations regarding the manufacturing sector'sgrowth outlook. While a third of the respondents expect the growth to further revive in the next two quarters, the same proportion of respondents believe the growth to remain same and the other third expect the growth to slowdown in the near future. The sector has suggested that following issues need to be addressed to revive industrial growth:

- ✓ Improving availability of power &skilled labour
- ✓ Reduce interest rates
- ✓ Improvement of infrastructure
- ✓ Labour law reforms
- ✓ Implementation of GST
- ✓ More measures for demand stimulation

- For half of the respondents, cost of production as a percentage of their salesincreased vis-à-vis last year. Some of the key reasons mentioned by the respondents for increasing cost are Increase in the cost of labour, power along with some of the other inputs – particularly the imported ones.
- Some of the significant constraints for the sector are deficiency of power, labour-related issues, lack of skilled labour, uncertainty of economic environment and lack of domestic as well as external demand.

Capital Goods

Quarterly Outlook for the Sector at a Glance

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

- 68% respondents reported higher level of production for October-December 2015 quarter vis-à-vis the same quarter last year. The same was reflected in the order books for the quarter wherein 63% of the respondents reported higher orders as compared to the previous quarter.
- Currently, the reported capacity utilization in the sector is around 67% and for around 47% respondents, the capacity utilization is more than that of previous year while for 42% it remains at the same level. Around 63% respondents reported that they are not planning to add capacity in next 6 months whereas 37% were in favour of the same.
- Almost half (48%) of the respondents reported same level of exports in the October-December quarter of 2015 vis-à-vis the same quarter last year.On the other side, almost 30% reported lower exports during the same period.
- About 58% of the respondents are maintaining average inventory levels while 32% reportedly are maintain higher levels.
- Around 68% respondents in this sector indicated that they are not planning to hire new workforce while others reported plans of increasing their workforce by around 5%.
- On an average, the industry reported to be availing credit at an interest rate of around 10%.
- While more than half (53%) of the respondents expect the manufacturing sector to remain on the same growth path, about 47% remain hopeful of a revival in near future. However, following suggestions have been proposed for faster revival of growth in the sector:
  - ✓ Incentivising domestic demand
  - ✓ Increasing mineral production to generate higher demand for mining equipment
  - ✓ Initiate labour reforms

- ✓ Special Support for R&D in the sector
- ✓ Lower interest rates
- ✓ Implementation of GST
- ✓ Skill Development incentive for industries developing key trade skills like welding
- ✓ Prompt and fast land allotment for projects

- About 52% respondents reported an increment in the cost of production while 30% maintained that there was no change in production costs vis-à-vis last year.
- Gradually rising raw material prices, presence of inverted duty structure in some sub-sectors, increased competition faced from imports, lack of domestic & export demand and uncertainty of economic environment are some of the important constraints for the sector which are restricting its growth.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Slight Improvement expected	Not indicated	Average inventory levels	Expected in next 6 months	Bleak outlook

- About two-third of the respondents reported increased production levels in the October-December quarter 2015 as compared to the corresponding quarter of 2014, though the growth remains low.
- Capacity utilization in this sector stands at 78%, which is more than that of the last year and about 66% of the firms are planning to add capacity in the next six months.
- For most of the respondents, inventory of finished goods for October-December quarter is same as their average inventory levels.
- Majority of the reporting firms in the cement and ceramics sector are not planning to hire new work force in the next three months.
- This sector is reportedly availing credit in the range of 10-12%.
- Despite a subdued demand from real estate market which serves as one of the key markets to sector, majority of the respondents in the cement and ceramics sector believe that the growth rate of manufacturing is likely to revive in the next six months. Following are the suggestions for the Government for faster revival of the sector:
    - ✓ Increasingfiscal expenditure on public infrastructure andgovernment-aided housing projects
    - ✓ Faster approvals for projects
    - ✓ Easing out of lending rates
- Issues that are affecting growth of cement and ceramics sector are high prices of raw materials, deficiency of power and sluggish domestic demand.

Chemicals and Fertilizers

Quarterly Outlook for the Sector at a Glance

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

- In October-December 2015 quarter, more than two-thirds (68%) respondents reported increased production levels as compared to the corresponding period a year before.
- However, more than 90% respondents reported same number of orders in October-December quarter of 2015 in comparison to the previous quarter.
- Capacity utilization stands at about 85% for this sector and for 78% respondents it is same as that of the last year. Further, 66% manufacturers are not planning to add capacity in the next 6 months.
- About two-thirds of the respondents reported either same or lower levels of exports during the October-December quarter 2015 over the same quarter of last year.
- Two-thirds of the respondents are maintaining their average inventory levels.
- 78% respondents are not planning to hire additional workforce in next 3 months.
- On an average the respondents in this sector are getting credit at approximately 12% and for some manufacturers cost of availing credit is as high as 14%.
- 56% respondents believe that the growth rate of manufacturing sector will revive in coming months. Following measures are suggested by respondents for revival of growth:
  - ✓ Interest rate needs to be lowered
  - ✓ Simplified taxation system
  - ✓ Impose anti-dumping duty to prevent dumping of materials at lower price.
  - ✓ Reforms in labour laws
  - ✓ Fast track clearances from various Government authorities especially environment clearances
  - ✓ Improvement in infrastructure (especially ports) and availability of power

- 44% of the respondents reported increase in cost of production as a percentage of their sales while equal proportion maintained their cost of production as same as that in last year. Some of the key contributors of increased cost of production are higher raw material cost and rising power cost.
- High prices and deficiency of raw materials, inverted duty structure, sluggish domestic demand, competition faced from imports and uncertain economic environment are significant constraints to the growth of the sector.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate Outlook	Bleak outlook	Average levels of inventory	No capacity addition expected in next 6 months	Bleak outlook

- The Electronics & electrical sector for the October-December 2015 quarter witnessed 63% respondents reporting higher levels of production on year-on-year basis, though the level of growth itself may not be high.
- On the other side, only 30% of the respondents reported a higher level of orders for the October-December quarter as comparative to the previous quarter while 50% reported no improvement in their order books.
- Current capacity utilization in the industry is around 65%. Primarily owing to the lower current utilization, 81% respondents reportedly don't have any plans to add any fresh capacity in next few months.
- A third of the respondents reported negative growth in exports in the October-December 2015 quarter as compared to the same quarter of last year. Also, 56% reported no change in exports during the same period.
- 60% respondents have maintained average inventory levels during October-December 2015 whereas only about a third maintained a higher inventory level.
- Almost all of the respondents were reluctant when asked about their plans of hiring additional work force in next 3 months.
- Electronics industry respondents are availing credit at an average rate of 12%.
- 40% respondents in the sector expect the manufacturing sector to revive in the next six months while another 40% expect no significant growth. Following suggestions were made to aid faster recovery of the sector:
  - ✓ Implementation of GST and keeping the sector at the lowest tax slab.

- ✓ Imposing anti-dumping duty on imports of Dry Batteries
- ✓ Should support the tier 2 supplier by schemes (reward, recognition or subsidies)which can encourage them to improve their product quality
- ✓ Reduction of interest rate

- 30% respondents reported that their production cost has increased than that of last year while costs remained same for 40% respondents. Rising labour wages and rupee devaluation have been cited as the key reasons towards this end.
- Prices of raw materials, uncertainty of economic environment, lack of domestic and export demand, deficiency of power and competition faced from imports are significantly affecting the growth of this sector.

Food

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Bleak Outlook	Bleak Outlook	Average levels of inventory	Some Capacity addition expected in next 6 months	Bleak Outlook

- Respondents in food sector reported production levels in the October-December 2015 quarteras similar to the same quarter last year with half of the respondents reporting improved order books for the same period.
- Similar situation seem to be prevailing on exports front as half of the respondents reported lower exports during October-December 2015 quarter vis-à-vis the same quarter of 2014.
- However, capacity utilization stands at more than 90% in the sector.
- For most of the respondents, the current inventories remain at levels similar to their average inventory levels.
- Most of the respondents in this sector are not planning to hire new workforce in next three months.
- In general, credit is being availed at an average interest rate of 12.5%.
- According to most of the respondents, growth in manufacturing sector is likely to revive in the coming months. Following suggestions were made by respondents from the sector on Policy front to revive growth :
  - ✓ Need for uninterrupted and adequate power supply
  - ✓ Easier credit facility with lower interest rates
- Most of the respondents reported increased production costs as compared to last year accounting to increased raw material and labour costs.
- Food Processing firms are facing constraints in production due to rising prices of raw materials, shortage of skilled labor and other labour related issues.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate Outlook	Bleak Outlook	High levels of inventory still continuing	Not Indicated	Bleak Outlook

- Respondents in leather and footwear sector reported higher output in the October-December quarter 2015vis-à-vis the same quarter last year with the growth ranging between 8-20%.
- Order books for most of the respondents reportedly increased in October-December 2015 quarter, when asked for quarterly basis.
- As regards exports, the outlook remains bleak for October-December 2015 quarter vis-à-vis the same quarter of 2014.
- The sector is operating at 70% of its installed capacity.
- Inventory level of many respondents is higher than their average inventory level.
- Most of the respondents in leather sector reported that they are not planning to expand their workforce in next three months.
- On average, firms in the sector reported to be availing credit at the rate of 10.5%.
- Most of the respondents in the sector expect same level of growth in manufacturing sector in coming months of 2015. However, following issues need to be addressed by Government to revive growth:
  - ✓ Easier credit facility with lower interest rates
  - ✓ Stable exchange rate and inflation
- Most of the firms have reportedly experienced increased cost of production mainly due to increased raw material cost and devaluation of the currency.
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, existence of inverted duty, deficiency of power and labour related issues.

Machine Tools

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate Improvement Expected	Improvement Expected	Not Available	Not Available	Not Available

- Most of the respondents in this sector reported improvement in production during October-December 2015 vis-à-vis October-December 2014. Respondents expect an increase in the vicinity of 5% in production in this quarter.
- However, the order books of the respondents reportedly remained flat for the quarter October-December 2015 compared to July-September 2015.
- The average capacity utilization of the sector remains in the range of 50-70%.
- Respondents reported higher level of exports (in the range of 5%-8%) in October-December 2015 as compared to the same quarter in 2014.
- Majority of the respondents have a positive outlook for growth rate of the manufacturing sector in the coming months. However, the following issues need to be addressed by the government in order to stimulate further growth:
  - ✓ Improving availability of Finance and working capital
  - ✓ Improving availability of land for expansion of projects
- Some of the significant constraints for this sector are shortage of working capital, competition faced from imports and uncertainty of economic environment.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

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

- 60% respondents from this sector reported same production levels for October-December 2015 quarter as compared to same quarter of previous year.
- This was also supported by 80% respondents who reported their order books to be flat in the quarter October-December 2015 as compared to the previous quarter.
- Currently, the industry is operating at an average capacity utilization of 67% and for 60% respondents it is the same as that of last year's capacity utilization. Almost all of the 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
  - ✓ Poor demand
- Most of the respondents reported that they maintained average inventory levels.
- 80% of the respondents reported that they do not have any plans to hire new workforce in next 3 months.
- On an average, the respondents reported to be availing credit from the banks at around 10.5% rate of interest.
- 40% of the respondents feel that growth rate will remain at the same level in coming months while the same proportion of respondents feel that the sector will continue its upward march. The industry suggested the following for quicker revival of sector's growth:
  - ✓ Lower interest rates and power rates.
  - ✓ Infrastructure development, especially improving availability of power to the industry
  - ✓ Implementation of GST

- ✓ Higher incentives for exports

- About four-fifths of the respondents indicated increased cost of production largely on the back of rise in power tariffs, wages and raw material costs.
- Most of the respondents feel deficiency and high prices of raw materials, deficiency of power, presence of inverted duty, lack of domestic demand, uncertainty of economic environment, shortage of skilled labourand competition from imports as the most important constraints for the industry's growth.

Textiles & Technical Textiles

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate outlook	Moderate Outlook	Above-average levels of inventory	Not expected in next 6 months	Bleak Outlook

- In October-December 2015, 40% respondents in textiles sector reported higher production levels as compared to the same quarter last year. Another 40% indicated no growth in the output while the rest indicated lesser production.
- In October-December 2015, 60% of textile respondents have reported higher number of orders as compared to the previous quarter.
- Around 53% of the respondents reported lower quantum of exports in the same quarter on a y-o-y basis.
- Average capacity utilization is hovering around 82% in textiles sector with almost 40% of the respondents operating at same capacity utilization as that of last year.
- Three quartersof the respondents are not planning to increase their capacity in next 6 months. However, some are planning to increase their capacities by as high as 40%.
- Around 53% of the respondents in textiles sector have reported that their current inventory level is more than their average inventory level.
- Around 74% respondents indicated that they are not planning to hire new workers in next three months. Others plan to increase their work force in the range of 10-15%.
- Though the average cost of credit for the sector is around 10.6% but for some manufacturers credit is available at a cost as high as 14% (approx.).
- 50% of the respondents are expecting manufacturing growth to remain at same level in coming months. The following suggestions are made to stimulate growth in the sector:
  - ✓ Easy availability of finance at lower interest rates
  - ✓ Improved power supply at reasonable rates
  - ✓ Increase duty drawback rates
  - ✓ Widening the scope of export incentive schemes

  - ✓ Introduction of GST
  - ✓ Availability of skilled labour and wider labour reforms
  - ✓ Need to have a strong focus on improving infrastructure & utilities

- 60% respondents indicated an increase in cost of production and the prime reasons for the inflated production cost has been mentioned as higher input cost and increased labour cost.
- Units in textiles sector are significantly affected by high prices of raw materials andinverted duty, labour related issues, deficiency of power, lack of skilled manpower, competitive pricing from the Bangladeshi firms and low domestic demand.

Textile Machinery

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate Outlook	Bleak Outlook	Not Indicated	Not expected in next 6 months	Bleak Outlook

- Most of the respondents in textile machinery sector reported an improvement in output during October-December quarter in 2015 vis-à-vis same quarter in 2014, though not high levels of growth.
- However, almost all the respondents reported a fall of in their exports for October - December 2015 quarter as compared to the corresponding quarter of 2014.
- The current capacity utilization in the sector is about 60% 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.
- Respondents in this sector have reported that they have no plans to hire new workforce in next 3 months.
- The average reported cost of credit for the sector hovers around 13.9%.
- Most 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. Respondents from this sector have suggested correction in the various levies, correction of prices of available labour and power and some support package to revive manufacturing sector's growth.
- Some of the major challenges for this sector are increased competition faced from imports, lack of export demand and lack of skilled labour.

Tyre

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate Outlook	Not Indicated	Not Indicated	Bleak Outlook	Bleak Outlook

- For the October – December 2015 quarter, most of the respondents reported a higher level of production as compared to the corresponding period of 2014.
- The average capacity utilization for respondents in tyre industry is around 80%. It is more or less same as that of last year for most of the respondents. The sector is facing serious threat from the dumping of Chinese truck and bus radial tyres into India which has resulted in under-utilization of existing tyre capacities in the country.
- Tyre industry is not planning to hire additional workforce in next 3 months as per the respondents.
- Most of the respondents in the sector believe that manufacturing growth rate is expected to revive in the coming months. Respondents suggested the following for faster revival of the industry:
    - ✓ Correction of inverted duty structure
    - ✓ The dumping of Chinese products, relevant to the sector, should immediately be dealt with
- Tyre sector is significantly constrained by deficiency and prices of raw material, inversion of duties, low domestic and export demand, and competition faced from imports.