FICCI QUARTERLY SURVEY
ON
INDIAN MANUFACTURING SECTOR

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FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

Manufacturing Division

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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-2 (July-September 2016-17) for thirteen major sectors namely auto, capital goods, cement and ceramics, chemicals, electronics & electricals, food products, leather and footwear, machine tools, metal and metal products, metal forging, paper products, textiles and technical textiles and textiles machinery. Responses have been drawn from 308 manufacturing units from both large and SME segments with a combined annual turnover of over ₹4 lac crore.

- FICCI's latest Quarterly Survey on Manufacturing suggests a mild improvement in manufacturing sector's growth for the second quarter of the fiscal (July-September 2016-17), with a slightly better outlook for production. The survey had earlier indicated a slowdown for the first quarter of 2016-17, which seems to be waning. The proportion of respondents expecting higher growth during the July – September quarter has risen to 55% as against 53% for April – June quarter 2016-17, although, it remains much below the percentage of 60% for January – March quarter of the previous fiscal.
- The slight improvement in the outlook for manufacturing production in second quarter of the current financial year is attributable to various factors including somewhat better outlook for exports compared to previous quarters, and better outlook on domestic demand front too.
- In terms of order books, almost half (49%) respondents reported higher order books for the quarter July – September 2016-17 which is more than that of the previous quarter (38%).

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-2 (2016-17)	55%
Q-1 (2016-17)	53%
Q-4 (2015-16)	60%
Q-3 (2015-16)	55%
Q-2 (2015-16)	63%

Q-1 (2015-16)	44%
Q-4 (2014-15)	52%
Q-3 (2014-15)	50%
Q-2 (2014-15)	62%
Q-1 (2014-15)	50%
Q-4 (2013-14)	56%
Q-3 (2013-14)	52%
Q-2 (2013-14)	48%
Q-1 (2013-14)	35%
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

- The milder improvement for the quarter gets reflected in terms of investment as for Q-2 2016-17, 73% respondents as against 75% respondents in previous quarter reported that they don't have any plans for capacity additions for the next six months. Though the proportion standing against expansion plans is still considerably high but is comparatively lower on a quarter-on-quarter basis. The higher percentage implies slack in the private sector investments in manufacturing is here to continue. Uncertain economic environment, unfavourable market conditions, competition from imports, delayed clearances, inadequate infrastructure (especially availability of power) and cost escalation are some of the major constraints which are affecting the expansion plans of the respondents.
- On a broader perspective, in some sectors (like textiles and technical textiles, metals, capital goods and chemicals), average capacity utilization has almost remained same in Q-1 of 2016-17 as was in Q-1 of 2015-16. The electronics and electricals sector, though, recorded a dip in the average capacity utilisation over the same period. On the other hand, capacity utilization has improved in auto sector and metal forging industry.

Table: Current Average Capacity Utilization Levels As Reported in Survey

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

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

- The average capacity utilization as reported in the survey for the total manufacturing sector is around 76% for Q-1 2016-17, marginally above the 74% for Q-4 2015-16.

Inventories

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

Exports

- Export outlook for second quarter's manufacturing also improved slightly as against the expectations for the first quarter. The proportion of respondents expecting higher exports in the second quarter 2016-17 rose by 5 percentage points to 41% as against 36% in 2016-17. This is supported by a fall in the respondents expecting lower exports for Q-2 (19%) as against 32% in Q-1 2016-17.

Hiring

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

Interest Rate

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

Sectoral Growth

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

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

Sector	Growth Expectation
Capital Goods	Strong
Cement and Ceramics	Strong
Chemicals	Strong
Metal Forging	Strong
Paper	Strong
Auto	Moderate
Textiles and Technical Textiles	Moderate
Textiles Machinery	Moderate
Electronics & Electricals	Low

Machine Tools	Low
Food Products	Low
Metals & Metal Products	Low
Leather and Footwear	Low

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

<u>Production Cost</u>

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

<u>Key Constraints for Manufacturing Sectors</u>

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

Sector	Key Constraints to Growth
Capital Goods	• Rising raw material prices (Steel etc) • Shortage of working capital • Increased competition faced from imports • Lack of domestic & export demand • Shrinking exports to Africa as many of the African countries, particularly Nigeria, is having foreign Exchange restrictions.
Cement and Ceramics	• Duty-free imports of cement • Inadequate domestic coal supplies against coal linkages • Deficiency and high prices of raw materials • Sluggish domestic and export demand • Inverted duty structure
Chemicals	• Deficiency of feedstock • Sluggish domestic and export demand
Forging	• Inadequate investment in infrastructure • Clearances for coal mining which will in turn give a boost to heavy transport vehicles • Technology up gradation in MSMEs
Paper	• Inadequate public investment in infrastructure • High interest rates

	• High prices and deficiency of key raw materials
Auto	• Uncertainty of tax rates and policy interventions related to vehicles • Uncertainty on the long term roadmap for fuel type, vehicular emission and safety regulations for vehicles • Labour-related reforms • Shortage of working capital • Low external demand.
Textiles and Technical Textiles	• High prices of raw materials • Inverted duty structure • Labour related reforms • Low domestic and export demand • Competition from imports
Textiles Machinery	• High imports of second-hand machinery which are available domestically as well • Availability of TUFS benefit on second hand textile machinery • Need for uniform rate of excise duty on all items of textile machinery and components • Increase in customs duty on textile machinery • Absence of TUFS for the Textile Engineering Industry
Electronics & Electricals	• High prices of raw materials • Inverted duty structure • Competition faced from imports • Lower domestic demand • Shortage of working capital finance • Low export demand
Machine Tools	• Shortage of working capital • Lower domestic and export demand • Competition faced from imports
Food Products	• Rising prices of raw materials • Labour related reforms • Shortage of skilled labour • Lower demand
Metals & Metal Products	• Deficiency and high prices of raw materials • Deficiency of power • Lack of domestic and export demand • Competition faced from imports • Shortage of skilled labour
Leather and Footwear	• High prices of raw materials • Inverted duty structure • Deficiency of power • Lower domestic and external demand • High cost of premium for both pre- and post-shipment for ECGC guarantee

Auto

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Improvement Expected	Largely Average levels of inventory	Bleak Outlook	Bleak Outlook

- More than four-fifths (86%) of the respondents reported an average of 11% higher production for the April – June quarter 2016-17 compared to the same quarter of previous year. Also, an equal proportion of respondents remain upbeat about the production levels of the current quarter, which is expected to rise by an average of 8.3% over the same quarter of previous year.
- This higher expectation is also matched by about 57% of the participants that reported higher quantum of orders during the current quarter on a quarter-on-quarter (q-o-q) basis.
- On an average, the industry is operating at a capacity of 76% and for more than 85% of the respondents, it is higher than that of last year. However, around similar proportion of the respondents do not plan to add capacity in the next six months.
- On the exports front, almost half of the respondents expect the quantum in July – September 2016-17 to be higher as compared with the levels of the corresponding quarter of the previous year while a third expects it to remain flat.
- About a third of the respondents reported to be maintaining higher-than-average inventory levels while half of the respondents maintain average levels of inventory.
- More than 80% respondents reportedly do not plan to hire additional workforce in the next three months.
- On an average, the industry is getting credit at 11.3% interest rate.
- Almost 57% of the covered industry representatives expect the growth of manufacturing sector to remain flat and others expect the growth to revive in the near future. The sector has suggested that following issues need to be addressed to revive growth:

- ✓ Reduce interest rates for capital
- ✓ Pump more investment in Infrastructure
- ✓ Support to revive the agriculture sector so as to revive rural automotive demand
- ✓ Implementation of GST
- ✓ Faster clearance for mining and infrastructure

- For about 83% of the respondents, cost of production as a percentage of their sales increased vis-à-vis last year while for the rest it remained the similar. This was mainly attributed to inflationary pressures on power and increase in contract labour rates.
- Some of the significant constraints for the sector are labour-related issues, shortage of working capital, uncertainty of economic environment and lower external demand.
- The respondents also pointed to uncertainty of tax rates and policy interventions related to vehicles and multiple non-ministerial agencies getting involved in the decisions related to the same. In addition, the uncertainty on the long term roadmap for fuel type, vehicular emission and safety regulations for vehicles is another concern.
- However, industry lauded the Make in India initiative, various excise and customs reforms, steps taken towards building confidence in government, enhancing ease of doing Business and the Skill India initiative, towards realising the sector's potential.

Capital Goods

Quarterly Outlook for the Sector at a Glance

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

- The sector presents a mixed-bag of sentiments regarding the output levels. An equal proportion of respondents reported higher, similar and lesser output levels for April – June 2016-17 quarter vis-à-vis the same quarter last year. However, for the present quarter, more than half (56%) of the participants expect the output level to be higher (y-o-y basis) by an average of 12% while a third expect it to remain flat.
- This was reflected in the order books for the present quarter wherein about 55% of the respondents reported higher orders as compared to the previous quarter of the current fiscal.
- Currently, the reported capacity utilization in the sector hovers around 80% and for around a third of the respondents, the capacity utilization is higher as that of previous year while 45% reported it to be unchanged. Around four-fifths of the covered firms reported that they are not planning to add capacity in next 6 months.
- While 45% of the respondents reported exports for the April-June 2016-17 quarter to be lower than that of the previous year’s quarter, an equal proportion is expecting higher level of exports in the present quarter vis-à-vis the same quarter last year (by an average of 15%).
- About 56% of the respondents are maintaining average inventory levels while a third reportedly are maintaining higher levels.
- About 80% respondents in this sector indicated that they are not planning to hire new workforce.
- On an average, the industry reported to be availing credit at an interest rate of around 12%.

- While two-thirds of the respondents expect the manufacturing sector to remain on the same growth path, only about 22% remain hopeful of a revival in near future. However, following suggestions have been proposed for faster revival of growth in the sector:
  - ✓ Faster disbursal of loans by banks and clearance formalities need to be reviewed.
  - ✓ Labour reforms
  - ✓ More steps to revive mining activities
  - ✓ Lower interest rates
  - ✓ Increased infrastructure spending
  - ✓ Increasing incentives for exports to distant countries such as those in Latin America
  - ✓ Implementation of GST
- Two-thirds of the respondents maintained that there was no change in production costs vis-à-vis last year.
- Gradually rising raw material prices, shortage of working capital, 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.
  - Also, the industry highlighted the shrinking exports to Africa as many of the African countries, particularly Nigeria, is having foreign Exchange restrictions. The industry suggested encouraging trade in Indian Rupee, without taking away the present export benefits, with these countries.
- Among the various initiatives taken by the government to boost manufacturing in the country, the participants singled out the Make in India initiative as the most beneficial one for the capital goods sector.

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	Bleak Outlook	Moderate outlook

- Majority of the respondents are expecting increased production levels (by an average of 13%) in the July – September quarter 2016-17 as compared to the corresponding quarter of 2015-16. However, only half of the respondents reported higher orders for the same quarter (on a Q-o-Q basis).
- Capacity utilization in the sector was reported to be in the vicinity of 87%. For half of the firms capacity utilisation was same that of last year and for the other half it was more than that of last year. Only a few of the firms are planning to add capacity in the next six months.
- Almost all of the respondents are reportedly maintaining average inventory levels of finished goods.
- Some of the reporting firms in the cement and ceramics sector are planning to hire new work force in the next three months though not significantly.
- This sector is reportedly availing credit at around 10% rate of interest.
- Almost all of the participants believe that the growth rate of manufacturing is likely to revive in the next six months.
- Issues that are affecting growth of the sector significantly are duty-free imports of cement; inadequate domestic coal supplies against coal linkages; higher tax burden; deficiency and high prices of raw materials; and sluggish domestic and export demand. Other issues faced by the sector are inverted duty structure, deficiency of power and uncertainty of economic environment.

Chemicals

Quarterly Outlook for the Sector at a Glance

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

- For April – June 2016-17 quarter, almost equal proportions of participants (33%) reported increased and similar production levels as compared to the corresponding period a year before. However, for the production levels of the current quarter, 42% respondents expect higher production vis-à-vis last year whereas half of them expect no change.
- However, more than half (55%) reported higher number of orders for the current quarter in comparison to the previous quarter, while 37% reported similar levels.
- Capacity utilization stands at about 83% for this sector and for 42% respondents it is more than that of last year. Further, more than four-fifths (83%) of the manufacturers are not planning to add capacity in the next 6 months.
- Half of the respondents expect higher levels of exports during the July – September quarter (2016-17) over the same quarter of last year.
- Almost 60% of the respondents are maintaining their average inventory levels and about two-thirds are not planning to hire workforce in next 3 months.
- About half of the respondents believe that the growth rate of manufacturing sector to revive and 45% expect it to remain the same in coming months. Following measures are suggested by respondents for revival of growth:
    - ✓ Interest rate needs to be lowered
    - ✓ Simplified taxation laws
    - ✓ Reforms in labour laws
- About 50% of the respondents reported no change in cost of production as a percentage of their sales.

- High prices and deficiency of fedstock, sluggish domestic and export demand and uncertain economic environment are significant constraints to the growth of the sector.
- Manufacturers highlighted the New Urea Policy and implementation of mechanism for gas pooling for fertiliser sector as one of the most significant policy supports towards the growth of the sector.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate Outlook	Moderate Outlook	Moderate Outlook	Bleak Outlook	Bleak Outlook

- The April – June 2016-17 quarter witnessed an equal proportion (37%) of respondents reporting higher and lower levels of production on year-on-year basis. For the current quarter, i.e. July – September 2016-17, 46% of the participants reported higher production levels (y-o-y) whereas 28% reported the same to be flat.
- This was supported by a similar proportion (45%) of respondents who reported a higher level of orders over the same period.
- Current capacity utilization in the industry stands at 65%. However, more than half (55%) of the firms reported lower levels of capacity utilisation as compared to that of last year.
- As a result, almost 90% of the respondents said that they have held back their expansion plans.
- 45% of the survey participants reportedly expected positive growth in exports in the July – September 2016-17 quarter as compared to the same quarter of last year while an equal percentage expected no change.
- Almost 40% respondents were maintaining lower inventory levels, while 37% of the others were having more than average inventory levels.
- More than four-fifths of the respondents (82%) 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 11%.
- Almost 55% of the respondents in the sector expect the manufacturing sector to follow the current path in the next six months while 37% expect a revision. Following suggestions were made to aid faster recovery of the sector:
    - ✓ Implementation of GST

- ✓ Improving infrastructure
- ✓ Cheaper working capital and term loans
- ✓ Anti-Dumping to be imposed on imports
- ✓ Reduction of interest rate

- 66% respondents reported that their production cost has risen than that of last year. Increase in relevant commodity prices and exchange rate headwinds have been cited as the key reasons towards this end.
- Prices of raw materials, inverted duty structure, competition faced from imports and lower domestic demand are significantly affecting the growth of this sector. Other constraints faced by the sector include shortage of working capital finance, low export demand and competition faced from imports.
- The industry perceives the Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), the Integrated Power Development Scheme (IPDS) and the Ujjwal Discom Assurance Yojana (UDAY) as few of the important support steps that the government has announced recently.

Food Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate Outlook	Moderate Outlook	Average levels of inventory	Bleak Outlook	Bleak Outlook

- Respondents in food sector provided a fragmented opinion when asked for their production levels in the April – June quarter 2016-17 vis-a-vis the same quarter last year with equal no. of respondents reporting lower, similar and higher production levels for the quarter. However, for the current quarter, two-thirds of the respondents expect production to be the same as that of last year's quarter.
- On exports front, half of the respondents reported lower exports while the other half reported flat exports for the current quarter (y-o-y).
- The industry currently utilises 57% of its installed capacity and is not considering any significant expansion plans.
- Regarding inventory levels, a third reported to be maintaining their average levels of inventories while another third reported higher than 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 11%.
- Following suggestions were made by respondents from the sector on policy front to revive growth :
  - ✓ Need to design and implement a policy to encourage dairy farming in organised sector
  - ✓ Ensure availability and use of high yield cow/buffalo breed
  - ✓ Labour reforms
  - ✓ Simpler credit facility with lower interest rates
  - ✓ Infrastructure improvement

- Two-thirds of the respondents reported no change in their production cost as compared to last year while the rest reported an increment.
- Food Processing firms are facing constraints in production due to rising prices of raw materials, labour related issues, shortage of skilled labour and lower demand.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Bleak Outlook	Bleak Outlook	Average levels of inventory	Bleak Outlook	Bleak Outlook

- Most of the respondents in leather and footwear sector are expecting no change in their production levels during July - September quarter 2016-17 vis-à-vis the same quarter last year. The same holds for the exports during the same quarter.
- However, order books for half of the respondents were reported to be leaner in the same quarter, while the other half reported similar levels, when asked for quarterly basis.
- The sector is employing only about 60% of its installed capacity and majority of firms are not planning to add capacity in near future.
- Inventory level of most of the respondents is reported to be at par with their average levels.
- Almost all of the respondents in this 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 9%.
- Most of the respondents in the sector expect same level of growth in manufacturing sector in coming months of 2016.
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, existence of inverted duty structure, deficiency of power, lower domestic and external demand and fluctuating prices of raw materials.
    - Also, industry participants reported a spike in the cost of exports as the premium for both pre- and post-shipment for ECGC guarantee are high.

Machine Tools

Quarterly Outlook for the Sector at a Glance

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

- Most of the respondents in this sector reported improvement in production during April – June quarter 2016-17 vis-à-vis April – June 2015-16. The same holds for the current quarter as well, i.e. respondents expect an increase in the vicinity of 2-5% in production in the present quarter. An equal proportion of respondents reported higher number of orders for the same quarter (q-o-q basis).
- The average capacity utilization of the sector stands at 80%.
- Survey participants expected their exports to remain flat during the current quarter on a y-o-y basis.
- On an average, the respondents reported to be availing credit at around 14% rate of interest.
- Majority of the respondents perceive the growth of the manufacturing sector to remain the same in the coming months. However, the following need to be addressed by the government in order to stimulate growth:
  - ✓ Reduce interest rates
  - ✓ Reduce duties on input material
- Some of the significant constraints for this sector are shortage of working capital, lower domestic and export demand, 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	Bleak Outlook	Average levels of inventory	Not expected in next 6 months	Bleak Outlook

- 43% of the respondents from this sector are expecting same production levels for the second quarter of 2016-17 as compared to same quarter of previous year, which is similar to the responses received for the first quarter.
- More than half of the respondents (58%) reported their order books to be flat in July – September quarter of 2016-17 while a third reported higher numbers.
- As for exports, three quarters of the respondents reported no change in exports for the present quarter (y-o-y basis).
- Currently, the industry is operating at an average capacity utilization of 70% and for 58% of the respondents it is the same as that of last year's. Also, 85% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- Most of the respondents (83%) reported that they maintained average inventory levels.
- Almost all 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 12% rate of interest.
- 58% of the respondents feel that growth rate will remain at the same level in coming months while rest of the respondents feel that the sector will be on an uptrend. The industry suggested the following for revival of the sector's growth:
    - ✓ Infrastructure development, especially improving availability of power to the industry
    - ✓ Support for development of skilled labour

- 58% of the respondents indicated increased cost of production largely on the back of rise in wages and raw material costs.
- Most of the respondents feel deficiency and high prices of raw materials, deficiency of power, lack of domestic and export demand, uncertainty of economic environment, competition faced from imports and shortage of skilled labour as the most significant constraints for the industry’s growth.

Forging

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Improvement Expected	(not available)	(not available)	(not available)

- Most of the respondents of this industry reported a 7% (approx.) rise in production during April-June quarter 2016-17 over the corresponding period of previous year. This increment also gets reflected in the positive expectations of the industry about the output levels for the current quarter, i.e. July-September 2016-17 (y-o-y), which is expected to gain momentum to the tune of 10-15%.
- On a quarter-on-quarter (q-o-q) basis too, most of the respondents expect higher quantum of orders for the present quarter, i.e. July-September 2016-17.
- While the industry is reportedly operating on about 60% of its installed capacity but the same is reported to be higher as compared to last year.
- Being in line with the production trend, exports for the current quarter (July – September 2016-17) are likely to rise by about 10% over the same quarter of previous year.
- Most of the respondents in the sector expect the manufacturing growth to revive during the next six months.
- Most of the respondents reported an increase in the cost of production, vis-à-vis last year, largely owing to inadequate power availability and steeper tariff of the same.
- Respondents suggested hastening investment in infrastructure; providing speedier clearances for coal mining which will in turn give a boost to heavy transport vehicles; and need for steps towards technology up gradation in MSMEs, as some of the measures for the government to push growth of the sector.

Paper Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Improvement Expected	Below-average level	Expected in next 6 months	Bleak Outlook

- Most of the respondents reported lower production levels (largely owing to water scarcity) for the sector during the April – June quarter of 2016-17 as compared to same quarter of previous year. However, the same is expected to increase by an average of 15% during the current quarter (y-o-y basis).
- Almost all of the respondents reported slightly improved order books flat during the same period. When asked about exports, most of the respondents expected higher levels during the July – September quarter of 2016-17 as compared to corresponding period of last year.
- Currently, the industry is operating at an average capacity of 80% which stands at higher levels for almost all of the respondents as compared to that of last year. Also, respondents reported that they are planning to increase their capacity in the next 6 months.
- Most of the respondents reported that they are maintaining below-average inventory levels.
- Almost all the respondents were not planning any increase in manpower in next 3 months.
- Presently, the average rate of interest for availing credit for the industry is reportedly around 10%.
- The industry holds positive expectations regarding growth rate of manufacturing in coming months.
- The survey participants highlighted increased public investment in infrastructure and lower interest rates as the prospective high priority areas for the government. Also, it singled out high prices and deficiency of key raw materials as significant constraint for the growth of the industry.

Textiles & Technical Textiles

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement Expected	Moderate Outlook	Average levels of inventory	Improvement Expected	Moderate Outlook

- For April – June quarter 2016-17, more than half of the respondents in textiles sector (56%) reported higher production levels as compared to the same quarter last year. Another 28% indicated no growth in the output while the rest indicated lesser production. For the current quarter, 61% of the participants reported higher production while proportion of those reporting lower output rose slightly to 22% (y-o-y).
- For the same quarter, half of the sample respondents reported higher number of orders as compared to the previous quarter.
- Around 41% of the respondents reported higher exports in the same quarter on a y-o-y basis while a third expected the quantum to be at par with that of the last year.
- Average capacity utilization is hovering around 85% in textiles sector with half of the respondents operating at same capacity utilization as that of last year.
- 55% of the respondents are planning to increase their capacity (in the range of 5-30%) in the next 6 months.
- Around 61% of the respondents in textiles sector have reported that their current inventory level is same as their average inventory level while a third have higher inventory.
- 55% of the respondents indicated that they are not planning to hire new workers in next three months while others responded affirmatively.
- The average cost of credit for the sector is around 11%.
- 45% of the respondents are expecting manufacturing growth to remain at the same level in coming months while the same percentage is expecting it to be a bit higher. The following suggestions are made to stimulate growth in the sector:
  - ✓ Implementation of GST
  - ✓ Reduction of interest rates

  - ✓ Labour laws needs to be reformed
  - ✓ Improved power scenario

- 61% 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 due to hike in minimum wages.
- Units in textiles sector are significantly affected by high prices of raw materials, inverted duty structure in the sector, labour related issues, low domestic and export demand, competition from imports and uncertain economic environment.
- The industry credited Merchandise Exports from India Scheme (MEIS) & Additional Duty scrips that helped to a certain extent in keeping the industry competitive in global market.

Textile Machinery

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement expected	Bleak Outlook	Average level	Bleak Outlook	Bleak Outlook

- Most of the respondents in textile machinery sector reported a 4% (approx.) fall in production during April-June quarter 2016-17 over the previous year. However, production levels for the current quarter, i.e. July-September 2016-17 (y-o-y), is expected to gain momentum to the tune of 5-10%.
- While the production levels, when compared on a year-on-year basis, may look bright, but the same does not get reflected on a quarter-on-quarter (q-o-q) comparison as almost all of the respondents expect lesser quantum of orders for the present quarter, i.e. July-September 2016-17.
- The industry is also reportedly operating on less than half of its installed capacity while maintaining average levels of inventories.
- Being in line with the production trend, the respondents reported a fall in their exports (by about 20%) for April – June quarter of 2016-17 (y-o-y) while that for the present quarter are expected to be lesser by 5-10%.
- Respondents in this sector reported that they have no plans to hire new workforce in next 3 months.
- Most of the respondents in the sector expect the manufacturing growth to remain the same for the next few months.
- Most of the respondents reported an increase in the cost of production, vis-à-vis last year, largely owing to rising cost of raw materials and labour costs.
- Respondents from this sector have suggested restricting indiscriminate imports of second-hand machinery which are available domestically as well; ceasing availability of TUFS benefit on second hand textile machinery; imposition of uniform rate of excise duty on all items of

textile machinery and components; increment in customs duty on textile machinery and extending TUFS for the Textile Engineering Industry; as some of the measures for the government to revive growth of the sector.

- Apart from the above, availability of skilled manpower and competition faced from imports are one of the major challenges for this sector.