FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

December 2016

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-3 (October-December 2016-17) for twelve major sectors namely auto, capital goods, cement and ceramics, chemicals, electronics & electricals, food products, leather and footwear, machine tools, metal and metal products, paper products, textiles and technical textiles and textiles machinery. Responses have been drawn from 332 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 improvement in manufacturing sector's growth for the third quarter (October-December 2016-17) of the fiscal, with a slightly better outlook for production. The proportion of respondents expecting higher growth during the October-December quarter has risen to 63% as against 55% for July-September quarter 2016-17. Respondents expecting negative growth too seems to be lessening with only 11% expecting so.
- The slight improvement in the outlook for manufacturing production in third quarter of the current financial year is attributable to various factors primarily to better outlook for exports compared to previous quarters. Outlook on domestic demand remains uncertain as of now.
- In terms of order books, almost half (48%) respondents reported higher order books for the quarter October- December 2016-17 which is almost the same as that of the previous quarter.

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-3 (2016-17)	63%
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

- Over 43% respondents reported to have higher capacity utilization in the last quarter which was better than the previous quarter.
- Despite better capacity utilization, the future investment outlook is not very optimistic. As for Q-3 2016-17, 77% respondents as against 73% respondents in previous quarter reported that they don't have any plans for capacity additions for the next six months. The higher percentage implies slack in the private sector investments in manufacturing is here to continue. Increased competition from imports, lack of demand and from industrial sectors and OEMs, shortage of credit are some of the major constraints which are affecting the expansion plans of the respondents. Also, it was pointed out by certain respondents that current demand is primarily from the Government sector and if that also wanes, manufacturing growth will be affected.
- On a broader perspective, in some sectors (like textiles and technical textiles, metals, paper, food, chemicals, auto etc) average capacity utilization has almost remained same or increased in Q-2 of 2016-17 as was in Q-2 of 2015-16. The capital goods sector recorded a dip in the average capacity utilisation over the same period.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilization (%) in Q-2 2016-17	Average Capacity Utilization (%) in Q-1 2016-17
Auto	80	77
Capital Goods	70	80
Cement	80	87.5
Chemicals	83	83
Textiles	84	84
Electronics & Electricals	70	65
Food	60	57
Leather & Footwear	60	60
Metals	70	70
Textiles Machinery	60	50
Tyre*	NA	NA
Paper	85	80
Machine Tools	80	NA

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

- The average capacity utilization as reported in the survey for the total manufacturing sector is around 77% for Q-2 2016-17, marginally above the 76% for Q-1 2016-17.

Inventories

- Inventory levels remain high with 81% respondents maintaining either more or same levels of inventory as their average inventory levels. This is almost the level one level of previous quarter, where 82% respondents reportedly carried either same or more than their average levels of inventory.

Exports

- Export outlook for third quarter's manufacturing also improved slightly as against the expectations for the second quarter. The proportion of respondents expecting higher exports in the third quarter 2016-17 rose to 46% as against 41% in Q-2 of 2016-17.

Hiring

- Hiring outlook remains subdued in manufacturing in coming months as 77% of the participants in Q-3 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-2 2016-17 (75%).

Interest Rate

- Average interest rate paid by the manufacturers still remain high though have shown some sign of moderation with highest rates reported to be at 14% as against 15% in previous survey.

Sectoral Growth

- Based on expectations in different sectors, the Survey suggests that nine out of twelve sectors were likely to witness low to moderate growth (less than 10%). Sectors, namely chemicals, electronics and leather are likely to witness strong growth of over 10% in Q-3 2016-17.

Table: Growth expectations for Q-3 2016-17 compared with Q-3 2015-16

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

Metals & Metal Products	Moderate
Leather and Footwear	Strong

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

Production Cost

- The cost of production as a percentage of sales for product for manufacturers in the survey has risen as 51% respondents reported cost escalation as compared to 49% in last quarter.

Priorities for Manufacturing Sectors

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

Sector	Priorities for the sector
Capital Goods	• Lower interest rates • Implementation of GST • Faster implementation of infrastructure projects including in PPP sector • Level playing fields projects for domestic sector
Cement and Ceramics	• Encourage large infrastructure projects with consumption of concrete • Competitive raw material prices • Increase expenditure in Government housing schemes • Increase custom duty on cement from zero • Improve coal supply
Chemicals	• Ease of doing business. • Competitive price for feedstock. • Reduce interest rates • Encourage natural gas pipeline
Forging	• Increase infrastructure spend • Reduce interest rates
Paper	• Faster implementation of GST • Increase infrastructure spend
Auto	• Faster implementation of GST & reforms • Labour reforms • Stimulate rural demand • Reduce interest sector
Textiles and	• Investment linked subsides required

Technical Textiles	• Reduce electricity cost • Reduce interest rates • Stimulate domestic demand • Ease of doing business
Textiles Machinery	• Remove duty inversions • Disincentives use of second hand machine
Electronics & Electricals	• Faster implementation of GST • Strengthen vendor base and electronic infrastructure ecosystem
Machine Tools	• Ease of doing business needs to be improved further
Food Products	• Boost consumption • Reduce rates of interest
Metals & Metal Products	• Lower power cost • Reduce interest rates • Labour reforms • Faster GST implementation
Leather and Footwear	• Reduce interest rates

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

- Most of the respondents remain upbeat about the production levels in the current quarter (Q-3 2016-17).
- This higher expectation is also matched by about 43% 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 84% and for more than 55% of the respondents, it is higher than that of last year. However, 71% of the respondents do not plan to add capacity in the next six months.
- On the exports front, almost half of the respondents witnessed higher exports in July – September 2016-17 as compared with the levels of the corresponding quarter of the previous year. Scenario is likely to improve in quarter-3 as 83% respondents are expecting higher exports vis-à-vis same quarter last year.
- About a third of the respondents reported to be maintaining lower-than-average inventory levels while 43% of the respondents are maintaining average levels of inventory.
- More than 70% respondents reportedly do not plan to hire additional workforce in the next three months.
- On an average, the industry is getting credit at 11.8% 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:
    - ✓ Early implementation of GST
    - ✓ Reduce interest rates for capital

- ✓ Faster clearance for mining and infrastructure
- ✓ Pump more investment in Infrastructure

- For about 57% of the respondents, cost of production as a percentage of their sales increased vis-à-vis last year. This was mainly attributed to inflationary pressures on power and increase in minimum labour rates.
- Some of the significant constraints for the sector are high prices of raw materials, labour-related issues availability of skilled labour and uncertainty of economic environment. Increased electricity tariff is also adversely impacting the industry.

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

- For the present quarter, more than 70% of the participants expect the output level to be higher (y-o-y basis) by an average of 13%.
- This was reflected in the order books for the present quarter wherein about half 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 70% 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 42% of the respondents reported exports for the July- September 2016-17 quarter to be lower than that of the previous year's quarter, half of the respondents are expecting same level of exports in the present quarter vis-à-vis the same quarter last year.
- Half of the respondents are maintaining average inventory levels while a third reportedly are maintaining higher levels.
- Two third of the 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 11.7%.
- While two-thirds of the respondents expect the manufacturing sector to remain on the same growth path, only about 28% 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.

- ✓ Lower interest rates.
- ✓ Early implementation of GST.
- ✓ Need reforms by Government in transmission and distribution of power with focussed approach and ensuring level playing field for local suppliers in Power Sector vis-à-vis foreign suppliers.
- ✓ Revival of industrial segment in oil and refineries, petro-chemicals, cement, steel etc. with investment in capacity expansion / new plants.

- For 50% respondents, production costs increased on account of increased wages and raw material costs whereas for another 43% respondents, there was no change in production costs vis-à-vis last year.
- Gradually rising raw material prices, low domestic & export demand and increased competition faced from imports 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.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investments for Expansion**	**Hiring**
Improvement expected	Not indicated	Average inventory levels	Bleak Outlook	Bleak outlook

- 75% respondents, as against 50% in previous quarter, are expecting higher production in October- December 2016 vis-à-vis the year ago quarter. 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 78%. For three fourth of the firms capacity utilisation is more than that of last year, for the rest capacity utilisation is lower. None of the respondents are planning to add capacity in next few months.
- Almost all of the respondents are reportedly maintaining average inventory levels of finished goods.
- Almost all 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 at around 11% rate of interest.
- Almost all of the participants believe that the growth rate of manufacturing is likely to revive in the next six months.
- About 50% of the respondents reported increased cost of production as a percentage of their sales due to increased raw material and fuel cost.
- Issues that are affecting growth of the sector significantly are 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, shortage of working capital, competition from imports and uncertainty of economic environment.

- Coal Supply: Inadequate domestic coal supplies against coal linkages is badly affecting the industry. The Cement Industry has been facing shortage of coal supplies against linkages due to non-supply and non-loading of coal Rakes from linked sources as most of the Coal Rakes got prioritized for the Power Sector.

- Infrastructure facilities are to be created in all the major terminals handling cement for faster evacuation of material and thus avoiding the heavy wharfage and demurrage charges being paid by cement units to the Railways.
- Cement Specific Policy (ies) (say for a period of minimum five years) may be announced. The Policies should be clear, transparent and customer friendly.
- Cement is one of the most highly taxed commodities in India. Despite cement being the most essential infrastructure input, the tax on cement is the highest among the items required for building infrastructure. This needs to be lowered by 20-25% from present level for further growth of the industry.
- Duty Free Import of Cement to be stopped: Government's policy of allowing duty-free import of cement in spite of India having more than 140 million tonnes of surplus cement capacity lying idle due to lack of demand has led to uneven playing field. There is a need to encourage and incentivize the cement and clinker export from India and re-impose duty on import of cement.

Chemicals & Fertilizers

Quarterly Outlook for the Sector at a Glance

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

- For the production levels of the current quarter, 44% respondents expect higher production vis-à-vis last year whereas another 44% expect no change. This is as against 55% of respondents expecting increased levels of production in previous quarter.
- 44% firms reported higher number of orders for the current quarter in comparison to the previous quarter, while 55% reported similar levels.
- Capacity utilization stands at about 84% for this sector and for a third of the respondents it is more than that of last year. Further, 78% of the manufacturers are not planning to add capacity in the next 6 months.
- 43% of the respondents reported higher levels of exports during the July – September quarter (2016-17) over the same quarter of last year. 86% respondents are expecting higher or same level of exports in the current quarter.
- Almost 44% of the respondents are maintaining their average inventory levels with one third of the firms having higher inventory. About 78% are not planning to hire workforce in next 3 months.
- The chemical and fertilizer manufacturers are reportedly getting credit in the range of 10-12.5%.
- More than half of the respondents believe that the growth rate of manufacturing sector to remain the same in coming months and rest expect the growth to revive. Following measures are suggested by respondents for revival of growth:
  - ✓ Early implementation of GST.
  - ✓ Interest rate needs to be lowered further.

- ✓ Need to improve common R&D and technical Skill levels that would help in innovation and domain expertise.
- ✓ Reduction in crude oil prices.

- About 50% of the respondents reported increased cost of production as a percentage of their sales.
- High prices of feedstock, sluggish domestic and export demand, uncertain economic environment and competition faced from imports 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
Positive Outlook	Moderate Outlook	Moderate Outlook	Bleak Outlook	Bleak Outlook

- For the current quarter, i.e. October – December 2016-17, 71% of the participants reported higher production levels (y-o-y) whereas 14% reported the same to be flat. This is as against 43% respondents expecting higher production levels in previous quarter.
- This was supported by a similar proportion (71%) of respondents who reported higher level of orders over the same period.
- Current capacity utilization in the industry stands at 70%. However, 43% of the firms reported same levels of capacity utilisation as compared to that of last year, another 43% reported lower capacity utilisation. 57% respondents are not planning to add capacity in next six months.
- 60% of the survey participants reported lesser exports in the July –September 2016-17 quarter as compared to the same quarter of last year. Scenario is likely to improve in current quarter as half of the respondents are expecting higher exports with the other half expecting exports to remain same.
- 57% respondents were maintaining average inventory levels, while others were having more than average inventory levels.
- More than four-fifths of the respondents (85%) 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 29% 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

- 43% respondents reported that their production cost has risen than that of last year. Increase in power tariff and lower sales have been cited as the key reasons towards this end.
- Prices of raw materials, inverted duty structure, competition faced from imports and lower domestic and export demand are significantly affecting the growth of this sector. Other constraints faced by the sector include uncertainty of economic environment and lower availability of skilled labour.

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

- Half of the respondents in food sector are expecting their production in October- December quarter 2016-17 to be lower and other half is expecting similar production levels for the quarter vis-a-vis the same quarter last year.
- On exports front, half of the respondents reported lower exports while the other half reported flat exports for the quarter (y-o-y) in July- September 2016. For October-December 2016, 50% of the respondents are expecting higher exports, other 50% is expecting a fall.
- The industry currently utilises 60% of its installed capacity and is not considering any significant expansion plans.
- Regarding inventory levels, half of the firms reported to be maintaining lower than average levels of inventories while another half 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 in the range of 10-13% interest rate.
- In the food processing sector, respondents are not very hopeful of revival in growth of the manufacturing sector. Following suggestions were made by respondents from the sector on policy front to revive growth :
    - ✓ Simpler credit facility with lower interest rates
    - ✓ Control Food inflation & boost consumer’s purchasing power
    - ✓ Infrastructure improvement, power supply to be improved
- Almost all the respondents reported no change in their production cost as compared to last year.

- Food Processing firms are facing constraints in production due to rising prices of raw materials, deficiency of power, 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
Positive Outlook	Bleak Outlook	Higher levels of inventory	Bleak Outlook	Bleak Outlook

- In October – December quarter two third of the respondents are expecting increased production levels as was the case in previous quarter too.
- However, order books for only one third respondents were reported to be higher in the same quarter, while the rest 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.
- Exports in July-September 2016 fell for 67% participants. Participants were divided when asked about exports for October-December as equal number are expecting higher, lower & same exports vis-à-vis the same quarter last year.
- Inventory level of most of the respondents is reported to be higher than their average levels.
- 67% 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 8.6%.
- Most of the respondents in the sector expect growth to further slowdown in manufacturing sector in coming months of 2016.
- All the respondents indicated increased cost of production largely on the back of rise in wages and raw material costs.
- Firms in leather and footwear sector are significantly constrained by deficiency and high prices of raw materials, deficiency of power, labour related issues, lower domestic and external demand and uncertain economic environment.

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 are expecting improvement in production during October -December quarter 2016-17 and respondents expect an increase in the vicinity of 8-10% 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 reported same level of exports in July- September quarter as compared to the year ago quarter. Respondents are expecting their exports to remain flat during the current quarter also on a y-o-y basis.
- Majority of the respondents perceive the growth of the manufacturing sector to revive in the coming months. However, the following need to be addressed by the government in order to stimulate growth:
  - ✓ Ease of doing business need to improve further in terms of availability of land, power and infrastructure
- Some of the significant constraints for this sector are shortage of working capital, lower domestic 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
Improvement expected	Improvement expected	Average levels of inventory	Not expected in next 6 months	Bleak Outlook

- Scenario is likely to improve in the current quarter (October- December 2016) as 90% respondents are expecting either higher or same production as against 70% in the last quarter.
- Half of the respondents reported their order books to be flat in October- December quarter of 2016-17 while 40% reported higher numbers.
- As for exports, half of the respondents reported no change in exports for the July-September quarter (y-o-y basis). In October- December all the exporters are expecting either same or higher exports compared to the same quarter last year.
- Currently, the industry is operating at an average capacity utilization of 70% and for 50% of the respondents it is the same as that of last year's. Also, 90% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- Most of the respondents (80%) 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.
- The respondents reported to be availing credit from the banks in the range of 10-14% rate of interest.
- 80% of the respondents feel that growth rate will revive in coming months. The industry suggested the following for revival of the sector's growth:
  - ✓ Infrastructure development, especially improving availability of power to the industry
  - ✓ Interest rates need to be lowered.
  - ✓ Support for development of skilled labour

- ✓ Early implementation of GST

- 80% 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 high prices of raw materials, lack of domestic and export demand, uncertainty of economic environment as the most significant constraints for the industry's growth.

Paper Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive outlook	Positive outlook	Average level	Not expected in next 6 months	Bleak Outlook

- Most of the respondents are expecting higher production levels for the sector, the same is expected to increase by an average of 7% during the current quarter (y-o-y basis).
- Almost all of the respondents reported slightly improved or same order books during the same period. When asked about exports, half of the respondents reported higher levels and other half reported same exports during the July – September quarter of 2016-17 as compared to corresponding period of last year. For October- December quarter, the scenario is likely to remain same as again half of the respondents are expecting same and other half is expecting higher exports.
- Currently, the industry is operating at an average capacity of 88% which stands at higher levels for almost all of the respondents as compared to that of last year. Also, respondents reported that they are not planning to increase their capacity in the next 6 months.
- 50% respondents reported that they are maintaining above-average inventory levels, whereas rest of the respondents are maintaining average inventory.
- 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 11.5%.
- The industry holds positive expectations regarding growth rate of manufacturing in coming months.
- The survey participants highlighted an early implementation of GST, resolving issues relating to labour reforms, land acquisition, etc. as the prospective high priority areas for the government. Also, it singled out high prices, deficiency of key raw materials and competition faced from imports as significant constraints for the growth of the industry.

Other factors affecting the growth of the sector are absence of structured policy of Government on use of waste land for plantation and inadequate water availability.

Textiles & Technical Textiles

Quarterly Outlook for the Sector at a Glance

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

- For October- December quarter, 61% of the participants reported higher production vis-à-vis the same quarter last year.
- For the same quarter, half of the sample respondents reported higher number of orders as compared to the previous quarter.
- Around 33% of the respondents reported higher exports in July- September on a y-o-y basis whereas 65% are expecting exports to be higher in October- December 2016 than that of the last year.
- Average capacity utilization is hovering around 94% in textiles sector with three fifth of the respondents operating at a higher capacity utilization as that of last year.
- One third of the respondents are planning to increase their capacity (in the range of 3-30%) in the next 6 months.
- Around 44% 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.
- 67% 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 9%.
- 67% of the respondents are expecting manufacturing growth to remain at the same level in coming months while 22% are 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 need to be reformed

- ✓ Improved power scenario
- ✓ Further improve Ease of Doing Business

- Half of the respondents indicated an increase in cost of production and the prime reasons for the inflated production cost has been mentioned as higher input cost including power and increased labour cost due to hike in minimum wages.
- Units in textiles sector are significantly affected by high prices of raw materials, labour related issues, low domestic and export demand, competition from imports and uncertain economic environment.

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

- Production levels for the current quarter, i.e. October- December 2016-17 (y-o-y), is expected to gain momentum, this is against a fall in production during July-September quarter 2016-17.
- 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. October-December 2016-17.
- The industry is also reportedly operating on 60% of its installed capacity while maintaining average levels of inventories. Textile machinery firms are not planning to increase their capacity in next 6 months.
- Being in line with the production trend, the respondents reported a fall in their exports (by about 15%) for July- September 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; fiscal support for R & D as some of the measures for the government to revive growth of the sector.

- Apart from the above, availability of skilled manpower is other significant challenge for this sector.