FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

December 2017

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FICCI QUARTERLY SURVEY ON INDIAN MANUFACTURING SECTOR

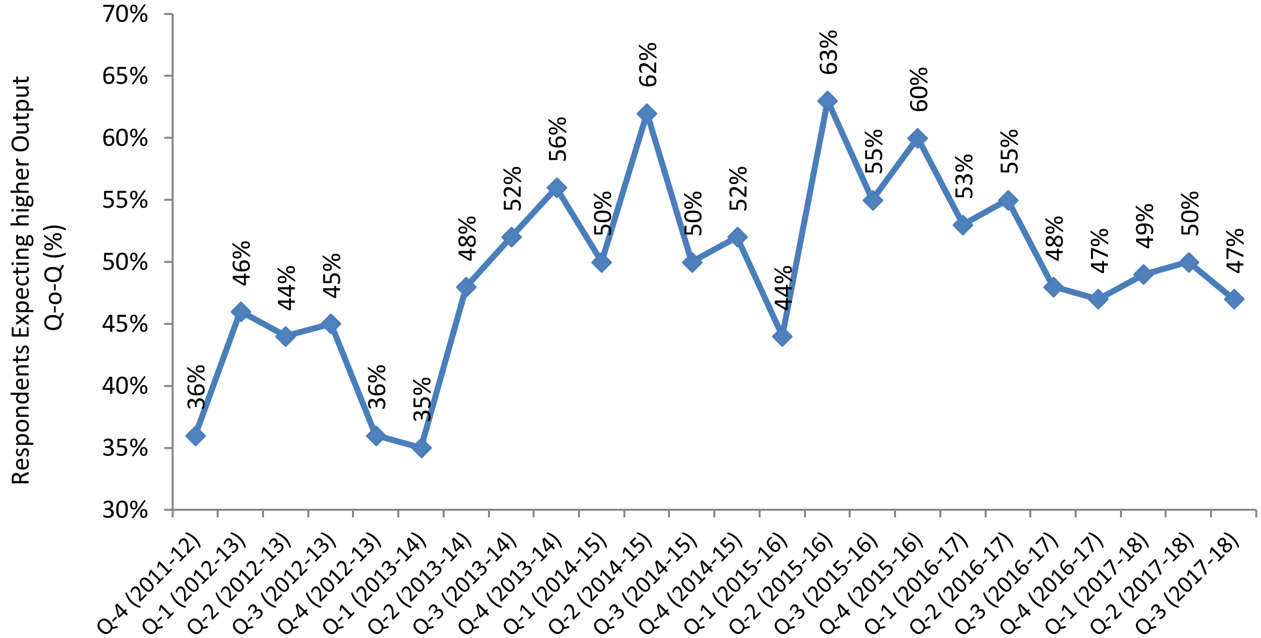
Introduction & Quarterly Outlook for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the expectations of manufacturers for Q-3 (October-December 2017-18) for twelve major sectors namely auto, capital goods, cement and ceramics, chemicals and pharmaceuticals, electronics & electricals, food products, leather and footwear, machine tools, metal and metal products, paper products, textiles and textiles machinery. Responses have been drawn from over 310 manufacturing units from both large and SME segments with a combined annual turnover of over ₹3 lac crore.

- FICCI's latest quarterly survey on Manufacturing suggests slightly less optimistic outlook for the manufacturing sector in the Q-3 (October- December 2017-18) as the percentage of respondents reporting higher production in third quarter has decreased vis-à-vis previous quarter.
- The proportion of respondents reporting higher output growth during the Q-3 (October-December 2017-18) has decreased to 47% from 50% in Q-2. However, the percentage of respondents reporting low production has also come down to 15% in October- December quarter from 18% in July-September quarter.
- This less optimistic outlook for manufacturing in third quarter of current fiscal is reported to be due to factors like rupee appreciation impacting exports, issues with regard to GST implementation and subdued demand in several sectors.
- In terms of order books, about 42% respondents in Q-3 (October-December 2017) are expecting higher number of orders as against 47% of Q2 2017-18 which again is reflecting subdued demand in economy.

Figure: Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter



Source FICCI Survey

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-3 (2017-18)	47%
Q-2 (2017-18)	50%
Q-1 (2017-18)	49%
Q-4 (2016-17)	47%
Q-3 (2016-17)	48%
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

<u>Capacity Addition & Utilization</u>

- Overall, the capacity utilization in manufacturing remains low. The average capacity utilization for the manufacturing sector is about 75% for Q-2 2017-18 as reported in the survey which is similar to that of Q-1 2017-18.
- As was the case in Q-1 2017-18, the future investment outlook remains pessimistic as 73% respondents in Q-2 2017-18 reported that they are not planning any capacity additions atleast for the next six months. Increasing imports, excess capacities, lower domestic demand from industrial sectors, high raw material cost, high interest rates are some of the major constraints which are affecting expansion plans of the respondents. Some respondents also reported that they are waiting for the market to settle down after the GST.
- Overall, in some sectors (like chemicals, food products, textiles, textiles machinery, leather & footwear, metal & metal products, cement and machine tools) average capacity utilization has either remained same or declined in Q-2 of 2017-18. On the other hand, sectors including auto, paper and electronics & electricals have registered a rise in the average capacity utilisation over the same period.

Table: Current Average Capacity Utilization Levels As Reported in Survey (%)

Sector	Average Capacity Utilisation in Q-2 2017-18	Average Capacity Utilisation in Q-1 2017-18
Auto	79	78
Capital Goods	70	70
Cement and Ceramics	75	75
Chemicals	79	76
Electronics & Electricals	70	68
Food Products	78	NA
Leather & Footwear	55	55
Machine Tools	80	80
Metals	80	76
Paper	88	80
Textiles Machinery	50	60
Textiles and Technical Textiles	80	82

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

Inventories

- Inventory situation hasn't changed much. 90% of the participants in Q-2 (July- September 2017-18) as compared to 92% in previous two quarters have maintained either more or same average levels of inventory.

Exports

- Outlook for exports seem to be less optimistic vis-à-vis previous quarters. Although, 48% respondents expect no change in the export levels, but 32% expect exports to fall. Appreciation of rupee has made the respondents apprehensive of exports outlook with majority of the respondents (around 57%) reporting that their exports were affected in Q-2 due to rupee appreciation.

Hiring

- Hiring outlook for the sector remains subdued in near future as 85% of the respondents in Q-3 2017-18 mentioned that they are not likely to hire additional workforce in next three months. This proportion is much higher than the previous quarter where 73% of the respondents were not in favour of hiring additional workforce.

Interest Rate

- Average interest rate paid by the manufacturers has slightly come down over last quarter showing signs of moderation with an average rate of 10.5% but the highest rate continues to be as high as 15%.

Sectoral Growth

- Based on expectations in different sectors, it is noted that high growth is expected in Auto, Capital Goods, Metal and Metal Products for Q-3 2017-18. Moderate growth is expected in Chemicals and Pharmaceuticals, Electronics & Electricals, Machine Tools and Textile Machinery in Q-3 2017-18 whereas low growth is expected in sectors like Cement and Ceramics, Food Products, Leather & Footwear and Textiles & Technical Textiles.

Table: Growth expectations for Q-3 2017-18 compared with Q-3 2016-17

Sector	Growth Expectation
Cement and Ceramics	Low
Food Products	Low
Textiles and Technical Textiles	Low
Leather & Footwear	Low
Chemicals & Pharmaceuticals	Moderate
Electronics & Electricals	Moderate
Machine Tools	Moderate
Textile Machinery	Moderate
Auto	Strong

Capital Goods	Strong
Metal and Metal Products	Strong

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

Production Cost

- The cost of production as a percentage of sales for manufacturers in the survey has risen significantly for 59% respondents in Q-3 2017-18. This is primarily due to rise in minimum wages, raw material cost and cost of power.

Auto

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive Outlook	Positive Outlook	Average/Low level	Bleak Outlook	Bleak Outlook

- For the Q-3 2017-18, all the respondents are expecting either same or higher level of production compared to the same quarter last year. The same pattern is visible in the order books.
- Currently, the sector utilizes 79% of its installed capacity which is higher than that of the last year. However, 80% of the covered firms reported that they are not planning to add capacity in the next six months.
- 50% of the respondents are expecting higher exports in October- December quarter vis-à-vis the same quarter last year.
- 50% of the respondents expect exports to get impacted (fall by 5-10%) due to the recent currency appreciation while imports to get cheaper by 0-5%.
- For 60% of the respondents, cost of production as a percentage of their sales increased vis-à-vis last year. This was mainly attributed to increased raw material costs, wages and additional cost incurred in adhering to GST.
- Majority of the respondents are maintaining less than average or same level of inventory largely owing to the better sales off-take in July and August.
- Majority of the participants are not planning to hire additional workforce in the next three months.
- More than 50% of the covered industry representatives expect the growth of manufacturing sector to remain same or slowdown in near future. The sector has suggested that following issues need to be addressed to revive growth:
  - ✓ Focusing on domestic demand creation.
  - ✓ Reduction in lending rates.

- ✓ Reviving the infrastructure sector to boost growth.

- Some of the significant challenges for the sector are high prices of raw materials, low domestic and export demand and uncertainty of economic environment.

Capital Goods

Quarterly Outlook for the Sector at a Glance

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

- 75% of the participants are expecting higher production in Q-3 2017-18. This also gets reflected in the order books as 58% of the sample reported higher number of orders as compared to the previous quarter of 2017-18.
- On an average, the sector is utilising about 70% of its capacity which stands at a higher level than that of the previous year. 83% of the participants reported that they are not planning to add capacity in next 6 months.
- On the exports front, 60% of the respondents are expecting exports to remain same in Q-3 2017-18 over Q-3 2016-17. For 50% of the firms exports are affected by 0-5% as a result of rupee appreciation, for others the affect is steep at 5-10%. About 50% expected the imports to get cheaper between 0-5% and for others imported inputs got cheaper by 5-10%.
- However, 58% of the respondents are maintaining average inventory levels while the rest are reportedly maintaining comparatively higher inventories.
- Majority of the participants (92%) from this sector mentioned that they are not likely to hire new workforce in near future.
- On an average, the industry reported to be availing credit at an interest rate close to 12%.
- About 42% of the participants expect growth of the manufacturing sector to revive in near future while another 50% expect it to remain on the same growth path. Following suggestions have been proposed for faster revival of growth in the sector:
  - ✓ Priority to infrastructure sector including Railways, ports, bridges, metros etc. which would help to revive the growth of manufacturing sector.
  - ✓ Stabilisation in the GST implementation

- ✓ More reforms for ease of doing business
- ✓ Resolving issues of NPAs to improve the health of banking system
- ✓ Lower interest rates and cost of financing

- A mild rise in production level has been matched by a rise in production costs as 67% of the respondents reported higher input costs. This was largely accounted by increased wages and raw material costs, logistics cost.
- Shortage of working capital, low domestic & export demand and uncertainty of economic environment are reportedly some of the significant 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
Low to Moderate outlook	Not indicated	Average inventory levels	Bleak Outlook	Bleak outlook

- 50% of the respondents are expecting higher production in October-December quarter vis-à-vis the same quarter last year. However, there is a varied outlook for quantum of orders as equal number of respondents reported a rise/ fall or same number of orders on a sequential basis.
- Average capacity utilization in the sector stood at 75%. Majority of the participants agreed for a rise in capacity utilisation on a year-on-year basis and are not planning to add capacity in next few months.
- Again 75% of the sample is reportedly maintaining average inventory levels while others are having lower levels.
- About three-fourth of the firms covered are not planning to hire new work force in the next six months.
- Respondents reported availing credit at an average rate of 10%.
- About three-fourth of the respondents reported rise in the cost of production as a percentage of their sales for current quarter.
- Respondents seem to be differing when asked to comment on the growth rate of the manufacturing sector. Issues that are affecting growth of the sector significantly are deficiency and high prices of raw materials and sluggish domestic and export demand. Some of the recommendations for the sector are :
  - ✓ Need for large scale development projects especially in housing
  - ✓ Reduction in input cost
  - ✓ Reducing lending rates further

Chemicals & Pharmaceuticals

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	Not expected in the next 3 months

- More than half of the respondents expect no change in production levels for the Q-3 2017-18 while others expect slightly higher production levels vis-à-vis last year. The same is reflected in the order books as well.
- Average capacity utilization stands at 79% for this sector and for almost three-fourth of the respondents, it is at same level as compared to that of last year. Further, 73% of the manufacturers are not planning to add capacity in the next 6 months.
- 75% of the respondents are expecting same level of exports in October-December 2017-18 compared to the same quarter last year. Rest of the respondents are expecting higher exports. Due to recent currency appreciation, majority of the respondents expect exports to fall between 0-5% of their current levels while a larger proportion (80%) expect imports to get cheaper in the same range.
- Almost 82% of the respondents are maintaining their average inventory levels. The cost of production has remained same for 80% of the respondents. Almost similar proportion of respondents (82%) are not planning to hire workforce in next 3 months.
- The chemical and fertilizer manufacturers are reportedly availing credit at an average rate of 11% p.a.
- 36% of the respondents believe the growth rate of manufacturing sector would revive in coming months whereas another 55% expect it to remain same. Following measures are suggested by respondents for revival of growth:
    - ✓ Interest rate needs to be lowered
    - ✓ Exchange rate stabilisation
    - ✓ Reduction in crude oil prices and power cost

- ✓ Simplification of regulatory process
- ✓ Simplification of GST
- ✓ Investment in infrastructure development, housing, railways, ports etc.

- Prices of raw materials, inverted duty structure, low domestic demand 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	Slight Improvement Expected	Higher level of inventory	Expected in next 6 months	Not expected in next 3 months

- For the October-December quarter 2017-18, about 67% of the respondents are expecting growth in production on a y-o-y basis. Almost similar percentage of the respondents reported higher level of orders for the same period.
- The sector is utilising about 70% of its average installed capacity. Around 42% of the firms recounted growth in their installed capacity as compared to that of last year. It is worth noting that around 58% of the respondents in this sector are planning to add capacity in next six months.
- Majority of the survey participants (56%) expect exports to grow in the October- December 2017-18 quarter as compared to the same quarter of last year. Only 11% of the participants are expecting lower exports. Three-fourth of the respondents expected exports to register a fall in the range of 0-5% as a result of currency appreciation while more than half believed the prices of imports to fall in the same range.
- About 50% of the respondents were reportedly maintaining higher level of inventories while another one third maintained same inventory levels.
- About 63% of the participants were reportedly averse when asked about their plans of hiring additional work force in next 3 months.
- Industry’s respondents reportedly are availing credit at an average rate of 12%.
- Cost of production remained same as reported by half of the respondents while one-third experienced a rise in the same as compared to last year.

- 42% of the sample in the sector expects the manufacturing sector to follow the current growth path in the next six months while a quarter remain upbeat about the same. The industry suggested the following to boost the growth rate of the manufacturing sector:
  - ✓ Improving infrastructure
  - ✓ Lowering interest rate
  - ✓ Investigate violation of Rules of Origin for imports at concessional duty under FTAs.
  - ✓ Simplification of GST implementation.
  - ✓ Labour Law Reforms.
  - ✓ Speedy disbursal to companies which have invested in capital equipment under MSIPS scheme of the Government.
- High prices of raw materials, deficiency of power, shortage of working capital, low domestic & export demand, availability of skilled labour, inverted duty structure and increasing competition faced from imports are significantly affecting the growth of this sector.

Food Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Negative Outlook	Negative Outlook	Higher than Average Inventory	Not Expected in Near Future	Moderate Outlook

- Half of the respondents have reported the production to fall during October-December 2017 vis-à-vis same quarter last year. The orders are also expected to fall in the same quarter on sequential basis.
- The average capacity utilisation stands at 77% and for all the respondents it is same as that of last year. Majority of the respondents are not planning to add capacity in next six months.
- The exports are likely to fall in October-December as compared to that of last year. Respondents expect exports to fall by 5-10% as a result of rupee appreciation.
- For 50% of the firms, cost of production as a percentage of their sales increased.
- Majority of the respondents are expecting to maintain higher than their average inventory levels. Half of the surveyed firms are planning to hire new workforce whereas others are not planning the same.
- On an average, firms in the sector reported to be availing credit at the rate of around 10%.
- 50% of the respondents expect the growth rate to revive whereas remaining expect it to further slowdown in coming months.
- Some of the major constraints for the sector are high prices of raw materials, low domestic and export demand and labor related issues.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Bleak Outlook	Moderate Outlook	Higher levels of inventory	Not expected	Bleak Outlook

- For the current quarter, all respondents are expecting lower production levels vis-à-vis last year. For the quantum of orders, 50% reported drop and rest expected receiving same numbers of orders.
- Current capacity utilization stands at 55% which is less than that of last year for most of the respondents. About 50% of the respondents are not planning to add capacity in near future.
- Participants seemed divided when asked about exports for the quarter October- December 2017 as equal number are expecting lower and same level of exports vis-à-vis the same quarter last year. In terms of impact of the rupee appreciation, all expected that the exports would fall by more than 10% whereas 50% expected the imported inputs to get cheaper by 0-5%.
- 50% of the respondents were reportedly maintaining higher than their average levels of inventory.
- Most of the participants are not planning to expand their workforce in next six months.
- All the respondents indicated increased cost of production largely due to rise in raw material costs.
- All the respondents are expecting lower growth rate in next six months. Some of the suggested measures include reduction in interest rate and more support for exports of leather and footwear.
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, labour related issues, low domestic and export demand, competition faced from imports and uncertain economic environment.

Machine Tools

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive Outlook	Moderate Outlook	Average level	Bleak Outlook	Bleak Outlook

- For the Q-3 2017-18, the output growth is expected to remain somewhat higher as reported by majority of the respondents vis-a-vis the same quarter last year. The numbers of orders are likely to remain same.
- Currently, the sector is reportedly operating at an average installed capacity of 80% and the industry is not expected to add further capacity in near future.
- The respondents in this sector expect their exports to remain same in October- December quarter on y-o-y basis.
- The cost of production increased for most of the firms mainly due to increased raw material and labor costs.
- On an average, firms in the sector reported to be availing credit at the rate of around 12.5%.
- The sector is not planning to hire new workforce in next three months.
- All respondents reported to maintain same inventory levels in the current quarter vis-a vis same quarter of last year.
- The sector representatives expect downfall in manufacturing growth in the coming six months. The respondents feel, in order to stimulate growth in the sector, the government should push more reforms especially in the Ease of Doing Business domain for land, power and infrastructure.
- Some of the significant constraints for this sector are shortage of working capital, low domestic demand, competition faced from imports, availability of skilled labor and uncertainty of economic environment.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive outlook	Moderate Outlook	Average levels of inventory	Bleak Outlook	Bleak Outlook

- Production of metal and metal products is likely to grow in October- December 2017 as all the respondents are expecting either same or higher levels of output when compared to the corresponding period of last year. This trend is reflected in the order books as well.
- The sector is reportedly operating at an average capacity of 80% which is at same level as reported in the last year for 80% respondents. Further, 90% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- As for exports, 50% of the respondents are expecting same level of exports for the October-December quarter (y-o-y basis) while the rest expected some improvement.
- 70% of the respondents indicated increased cost of production, due to increased raw material costs and high electricity tariffs.
- As for the inventory level, 70% of the respondents are maintaining average inventory levels.
- The metal sector respondents have reported that they do not have any plans to hire new workforce in next 3 months.
- The respondents reported to have availed credit from the banks at an average rate of 13%.
- 60% of the respondents feel that growth rate of the manufacturing sector will revive in coming months. The industry suggested the following for revival of the sector’s growth:
    - ✓ Infrastructure development and demand creation for steel sector.
    - ✓ Dis- incentivising cheaper imports from overseas
    - ✓ Lower interest rates

- Most of the respondents feel high prices of raw materials, low domestic demand and uncertainty of economic conditions 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
Moderate outlook	Moderate outlook	More than Average level	Bleak Outlook	Bleak Outlook

- Paper produces are expecting same level of production in October- December 2017 as compared to the same quarter last year. However, 50% of the respondents are expecting higher number of orders in October- December 2017.
- The industry is reportedly operating at an average capacity of 88% which is higher for majority of the respondents as compared to that of last year. Owing to excess capacity, most of the respondents reported that they are not planning to increase their capacity in the next 6 months.
- On the exports front, respondents are expecting either higher or same exports during the Q-3 2017-18 as compared to corresponding period of last year. 50% of the respondents expected a fall in exports by 5-10% as result of rupee appreciation.
- Half of the survey participants reported that they are maintaining inventory levels at par with their average levels while the rest are maintaining more than their average level of inventory.
- The cost of production fell for majority of respondents due to fall in raw material cost.
- Almost all of the respondents are not planning any increase in manpower in next 6 months.
- Presently, the average rate of interest for availing credit for the industry is 9.5% pa.
- Most of the industry representatives believe that the growth rate of manufacturing sector will remain at same level in coming months. Industry has recommended the following for faster growth of the sector:
    - ✓ Infrastructure spend to be increased
    - ✓ Reduction in interest rates.

- The respondents highlighted deficiency of raw materials, inverted duty structure low demand and competition faced from imports as areas of concern for the sector.

Textiles and Technical Textiles

Quarterly Outlook for the Sector at a Glance

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

- The output of the textiles sector is likely to grow in Q3 of 2017-18 as two third of the respondents are expecting either same or higher level of production on an yearly basis. Further, on sequential comparison, 60% firms have reported same or higher number of orders for October- December 2017.
- The industry is reportedly operating at 80% of its installed capacity which is same as that of last year for 60% of the firms. Most of the respondents are not planning any capacity addition and hiring for the next 6 months.
- 57% respondents are expecting a fall in exports in October- December vis-à-vis the same quarter last year. However, 62% expect the exports to fall by 0-5% as a result of rupee appreciation. All the respondents felt that imported inputs to get cheaper by 0-5% as a result of recent rupee appreciation.
- Majority of the respondents suggested that they are maintaining level of inventory at par with their average level.
- 80% of the respondents expected a rise in production cost owing to increase in raw material and labour cost.
- Majority (60%) of the respondents are maintaining average level of inventory but rest are having higher inventories.
- The average rate of interest for availing credit is around 9% pa.
- More than half of the respondents expect the growth rate of manufacturing sector to remain at same level. To revive the growth, industry has given the following suggestions:
    - ✓ Simplification of labor laws.

- ✓ Lower interest rates.
- ✓ Address the anomalies in GST Act
- ✓ Uninterrupted power supply.
- ✓ Higher drawback rates required.
- ✓ Increase the rate of interest subvention from 3% to 5% for made ups.

- High prices of raw materials, labour related issues, low domestic demand and exports, competition faced from imports and uncertainty of economic conditions are significant challenges for this sector.

Textiles Machinery

Quarterly Outlook for the Sector at a Glance

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

- For the quarter October- December 2017-18, majority of the participants expect their production level to be higher than that of same quarter last year. However, they expect to receive same number of orders as in July-September 2017 quarter.
- The average capacity utilization of the sector is hovering around 50% with all respondents operating at the same capacity as that of last year.
- On an annual basis, respondents are expecting exports to remain subdued in October-December quarter compared to last year. Respondents feel the recent rupee appreciation would affect exports in the range of 0-5% and also expects imports to get cheaper by the same magnitude.
- The cost of production increased for textile machinery manufactures due to increase in raw material, power tariff and labor cost.
- All respondents in the sector have reported that their current inventory level is at par with their average inventory level. There are no plans to hire new workforce.
- The sectoral growth rate is likely to remain at same level. The industry has suggested the following for reviving growth:
  - ✓ Limit the vintage of textile machinery to five years only for second hand import.
  - ✓ Discourage import of second hand machinery for modernization.
  - ✓ Discourage import of cheap and old technology machinery by providing necessary safeguard measures.
  - ✓ Introduce Technology Upgradation Fund Scheme for the Textile Engineering Industry.
  - ✓ Fiscal support for Research and Development of Textile Engineering Industry.

- ✓ Creation of Common Facility Centres for Training, Testing, Product Development, Design (CAD CAM) etc.
- ✓ Fund for technology development- High speed shuttleless loom.

- Competition faced by imports, inverted duty structure and availability of skilled labour force are other constraints faced by the sector.

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