****

**FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY**

**FICCI QUARTERLY SURVEY**

**ON**

**INDIAN MANUFACTURING SECTOR**

**March 2018**

|  |  |
| --- | --- |
|  | |
| **CONTENTS** | **Page No.** |
| *Introduction & Quarterly Outlook for Manufacturing Sector* | *1* |
| *Automotive* | *7* |
| *Capital Goods* | *9* |
| *Cement and Ceramics* | *11* |
| *Chemicals & Pharmaceuticals* | *12* |
| *Electronics & Electricals* | *14* |
| *Food Products* | *16* |
| *Leather and Footwear* | *17* |
| *Machine Tools* | *19* |
| *Metal and Metal Products* | *20* |
| *Paper Products* | *22* |
| *Textiles* | *23* |
| *Textiles Machinery* | *25* |

**Introduction & Quarterly Outlook for the Manufacturing Sector**

***Production and Demand***

FICCI’s latest quarterly survey assessed the expectations of manufacturers for Q-4 (January-March 2017-18) for twelve major sectors namely automotive, capital goods, cement and ceramics, chemicals and pharmaceuticals, electronics & electricals, food products, leather and footwear, machine tools, metal & metal products, paper products, textiles and textiles machinery. Responses have been drawn from over 300 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 portrays positive outlook for the manufacturing sector in Q-4 (January-March 2017-18) as the percentage of respondents reporting higher production in fourth quarter has increased vis-à-vis previous quarter of 2017-18.
* The proportion of respondents reporting higher output growth during the Q-4 2017-18 has increased significantly to 55% from 47% in Q-3. It is worth mentioning that Q-4 has witnessed the highest percentage of respondents (55%) expecting higher production since Q-2 of 2016-17. The percentage of respondents reporting low production has also come down to 11% in fourth quarter from 15% in Q-3 of 2017-18.
* In terms of order books, 51% of the respondents in Q-4 (January-March, 2017-18) are expecting higher number of orders as against 42% of Q3 2017-18 which again is a sign of revival.

**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-4 (2017-18) | 55% |
| 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***

***Capacity Addition & Utilization***

* However, overall capacity utilization in manufacturing remains low. The average capacity utilization for the manufacturing sector is about 77% for Q-3 2017-18 as reported in the survey which is similar to that of Q-2 2017-18.
* The future investment outlook remains pessimistic as 64% respondents in Q-3 2017-18 reported that they are not planning any capacity additions for the next six months. High raw material prices, low domestic and export demand, exchange rate appreciation, increasing imports, excess capacities and shortage of working capital finance are some of the major constraints which are affecting expansion plans of the respondents.
* In some sectors like electronics & electricals, automotive, capital goods, textiles, textiles machinery, leather & footwear, metal & metal products and machine tools, average capacity utilization has either increased or remained almost same in Q-3 of 2017-18.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector** | **Average Capacity Utilisation in Q-3**  **2017-18** | **Average Capacity Utilisation in Q-2**  **2017-18** | **Average Capacity Utilisation in Q-1**  **2017-18** |
| Automotive | 78 | 79 | 78 |
| Capital Goods | 70 | 70 | 70 |
| Cement and Ceramics | 73 | 75 | 75 |
| Chemicals & Pharmaceuticals | 78 | 79 | 76 |
| Electronics & Electricals | 76 | 70 | 68 |
| Food Products | NA | 78 | NA |
| Leather & Footwear | 75 | 55 | 55 |
| Machine Tools | 80 | 80 | 80 |
| Metals & Metal Products | 81 | 80 | 76 |
| Paper Products | 80 | 88 | 80 |
| Textiles Machinery | 60 | 50 | 60 |
| Textiles | 80 | 80 | 82 |

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

***Inventories***

* Inventory scenario has not changed much in 2017-18. In third quarter, 90% of the respondents have reported that they have maintained either more or same level of inventory which is similar to that of previous quarters.

***Exports***

* The outlook for exports seems marginally positive as 47% of the participants are expecting a rise in the exports for Q-4 and 34% are expecting the exports to continue on same path as that of same quarter last year.
* Rupee appreciation has also affected exports during Q-3 2017-18 as 80% of the respondents reported that the exports were affected by upto 5% due to rupee appreciation.

***Hiring***

* Hiring outlook for the sector remains subdued though better than last quarters, in near future as 70% of the respondents mentioned that they are not likely to hire additional workforce in next three months. This proportion has declined as compared to the previous quarter where 85% of the respondents were not in favour of hiring additional workforce.

***Interest Rate***

* Average interest rate paid by the manufacturers has remained same as that of previous quarter standing at 11% p.a. but the highest rate continues to be as high as 16% (increased by 1% over previous quarter).

***Sectoral Growth***

* Based on expectations in different sectors, it is noted that high growth is expected in Automotive and Capital Goods for Q-4 2017-18. Moderate growth is expected in Cement and Ceramics, Chemicals & Pharmaceuticals, Leather & Footwear, Paper, Machine Tools, Metals and Metal Products, Electronics & Electricals and Food Products in Q-4 2017-18 whereas low growth is expected in Textile Machinery and Textiles sector.

**Table: Growth expectations for Q-4 2017-18 compared with Q-4 2016-17**

|  |  |
| --- | --- |
| **Sector** | **Growth Expectation** |
| Textile Machinery | Low |
| Textiles | Low |
| Chemicals & Pharmaceuticals | Moderate |
| Machine Tools | Moderate |
| Food Products | Moderate |
| Cement and Ceramics | Moderate |
| Metals and Metal Products | Moderate |
| Electronics & Electricals | Moderate |
| Leather & Footwear | Moderate |
| Paper Products | Moderate |
| Automotive | Strong |
| Capital Goods | 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 62% respondents in Q-3 2017-18. This is primarily due to increase in cost of raw materials, increased wages, power cost and higher GST rates on certain products.

***Automotive***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive Outlook | Positive Outlook | Moderate level | Bleak Outlook | Bleak Outlook |

* For the Q-4 2017-18, all the respondents expect an increase in the production level as compared to same quarter last year. Though, only 67% of the respondents reported a rise in the order books as compared to last quarter.
* Currently, the sector utilizes 78% of its installed capacity which is more than that of last year. Only 34% of the respondents plan to add capacity in the next six months.
* All the respondents are expecting higher exports in January-March quarter vis-à-vis the same quarter last year. The exports are expected to rise by an average of over 10% during Q-4.
* Imports of raw material got cheaper by 0-5% as a result of currency appreciation in October-December 2017-18 quarter.
* 67% of the participants mentioned the cost of production has risen in the last few months. Some of the reasons for production cost increase included increase in labour and electricity cost.
* The respondents seemed to be equally divided when asked about the inventory level during Q-3 2017-18 as equal number of participants reported to maintain either more or same/ lower level of inventories.
* 67% of the participants are not planning to hire additional workforce in the next three months.
* The sector is availing credit at an interest rate of 9% p.a.
* Respondents expect growth of manufacturing to revive in next six months. The sector has suggested following issues to be addressed to revive growth:
  + Need to expedite refund of GST input tax credit.
  + Boosting demand in the sector.
  + Need to develop infrastructure such as roads.
  + Focusing on skill development for the sector.
  + Oil price stabilization.
* Some of the significant challenges for the sector are high prices of raw materials, deficiency of power, labour related issues, low domestic demand and availability of skilled labour.

***Capital Goods***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive Outlook | Improvement Expected | Average inventory | Improvement Expected | Moderate Outlook |

* 83% of the respondents expect higher production in Q-4 2017-18. This also gets reflected in the order books as 75% of the sample reported higher number of orders as compared to 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 for most of the respondents. It is worth noting that 58% of the participants are planning to add capacity in next 6 months in the range of 15-30%.
* On the exports front, 64% of the respondents are expecting a rise in exports in Q-4 2017-18 over Q-4 2016-17. Rest of the respondents are expecting similar level of exports.
* 83% of the respondents reported that the exports fell by 0-5% due to rupee appreciation. About 66% respondents have reported that the imports got cheaper between 5-10% during Q-3 of 2017-18.
* 75% of the respondents reported an increase in the cost of production as a percentage of sales vis-à-vis last year due to increase in cost of raw materials, increased wages, rise in electricity tariffs and GST compliance cost.
* 50% of the respondents are maintaining average inventory levels while 25% have reported to maintain comparatively higher inventories as a result of delayed payments. Some respondents mentioned that they are maintaining higher inventories so as to avoid delays in delivery for future orders due to logistics challenges.
* 50% of the respondents from this sector reported to hire new workforce in near future upto 20%.
* On an average, the industry reported to be availing credit at an interest rate close to 11% p.a.
* About 64% respondents expect growth of manufacturing to remain same in near future while another 36% expect it to revive in next six months. Following suggestions have been proposed for faster revival of growth in the sector:
  + GST related issues need to be resolved on a timely basis.
  + Credit needs to be provided at lower rates to the industry.
  + Reforms in Ease of Doing Business to facilitate large investments.
  + Introduction of Preferential Market Access scheme in Central and State Government tenders.
  + Strengthening training programmes for skill development in the sector.
  + Reducing EPF upper limit to enable workers to have more cash in hand.
  + Need for affordable and well-connected industrial parks - especially for small and medium scale manufacturing industries.
  + Encouraging indigenized machine tool builders for easy and affordable access to technology.
* High prices of raw materials, low domestic and export demand, shortage of working capital, 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** |
| Moderate Outlook | Positive Outlook | Average inventory levels | Bleak Outlook | Bleak outlook |

* 50% of the respondents expect higher production in Q-4 2017-18 vis-à-vis the same quarter last year. All respondents have a positive outlook for order books for the quarter.
* Average capacity utilization in the sector stood at 73%. But given muted demand, none is planning to add significant capacity in next few months.
* All respondents expect growth in exports during Q-4 2017-18 vis-à-vis same quarter last year.
* About two-third of the respondents reported rise in the cost of production as a percentage of their sales for Q-3 2017-18 as a result of increase in input cost.
* 67% of the sample maintained average inventory levels during Q-3 2017-18 and for rest of the respondents, inventory levels were higher.
* None of the firms covered are planning to hire new work force in the next six months.
* Respondents reported that they are availing credit at an average rate of 8.2% p.a.
* Half of the respondents are of the view that growth of the manufacturing sector is likely to revive while others reported it to continue on the same growth path. Some of the recommendations for the sector are :
* Increase spending on public infrastructure, government aided housing projects.
* Interest rates to be lowered.
* Some of the constraints hampering growth of the sector include high prices of raw materials, deficiency of power, low domestic and export demand and availability of skilled labour.

***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 | Bleak Outlook | Moderate  Outlook |

* Respondents seemed to have mixed expectations about the production level in Q-4 2017-18 as half of the respondents expect growth in Q-4 2017-18 while other half expect production to remain same vis-à-vis same quarter last year. 58% of the respondents expect the quantum of orders to remain same in Q-4 2017-18 as that of previous quarter.
* Average capacity utilization stood at 78% for this sector and is at same level for majority of the respondents as compared to last year. 59% respondents are not planning to add capacity in next 6 months.
* 56% of the respondents expect same level of exports in Q-4 2017-18 as compared to the same quarter last year. However, 22% of the respondents expect a rise in exports.
* Due to recent currency appreciation, all respondents reported a fall of 0-5% in exports. On the other hand, a large proportion (90%) reported that the imports of raw materials got cheaper within the same range during Q-3 2017-18.
* Half of the respondents reported no change in the cost of production vis-à-vis last year. However, for 33% of the respondents, cost of production increased due to high raw materials costs, increased power tariff and freight costs.
* Almost 67% of the respondents have maintained their average inventory levels during Q-3 2017-18. Others are maintaining higher than average inventories.
* 50% of the respondents plan to hire workforce in next 3 months by 2-5%.
* Chemical and pharmaceuticals manufacturers are reportedly availing credit at an average rate of 10.5% p.a.
* 58% of the respondents expect manufacturing growth to remain same while others expect it to revive in coming months. Following measures are suggested by respondents for revival of growth:
  + Need to further simplify the regulatory procedures.
  + Raw material availability at reasonable prices.
  + Exchange rate stabilisation.
  + Infrastructure like Natural Gas pipeline.
  + Reduction in GST rates of raw materials for chemical industry.
* Prices of raw materials, shortage of working capital finance, low domestic demand, competition faced from imported goods and uncertain economic environment are some of the 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 | Improvement Expected | Average level of inventory | Moderate Outlook | Moderate Outlook |

* For Q-4 2017-18, about 71% respondents expect production to continue at same level or increase as compared to same quarter last year. The same trend was observed for order books for Q-4 2017-18.
* The sector is utilising about 76% of its installed capacity. Half of the firms reported maintaining same installed capacity as compared to that of last year. 71% of the respondents in this sector are not planning to add capacity in next six months.
* 67% of the respondents expect a rise in exports while rest reported exports to remain same as that of the last year.
* Most respondents reported a fall in exports ranging between 0-5% during Q-3 2017-18 due to currency appreciation. Further, 83% respondents mentioned that the imports of raw materials got cheaper by 0-5% during the same period.
* Despite that, 71% of the respondents reported a rise in the cost of production during Q-3 2017-18 due to high raw material prices, wage inflation and higher import duties on raw materials.
* About 71% respondents were reportedly maintaining same level of inventories while others were maintaining higher inventories.
* About 71% respondents were not having any plans of hiring additional work force in next 3 months.
* Industry’s respondents reportedly are availing credit at an average rate of 11% p.a.
* 57% of the respondents expect the sector to revive in next six months whereas the rest believe it to follow the current growth path in the next six month. Following was suggested to boost growth of manufacturing:
  + Reduction in cost of finance especially for SMEs.
  + Delay in GST refunds has blocked working capital of industry, this needs to be expedited.
  + Rationalization of GST rates from 28% to 18% on domestic appliances.
  + Correcting inverted duty structure
  + Need for labour reforms in the sector.
* Higher prices of raw materials, inverted duty structure, low domestic demand and high competition faced from imported goods are significantly affecting growth of this sector.

***Food Products***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Moderate Outlook | Moderate Outlook | Higher Inventory | Moderate Outlook | Moderate Outlook |

* All respondents expect production to remain same during Q-4 2017-18 as that of same quarter last year. The same is reflected in order books as well.
* No significant capacity addition in near term is seen.
* Outlook for exports is better than last quarter for Q-4 2017-18.
* For all respondents, cost of production has remained same as a percentage of their sales.
* Majority of the respondents were maintaining higher than their average inventory levels during Q-3 2017-18. None of the surveyed firms are planning to hire new workforce in a significant manner in next three months.
* On an average, firms in the sector have reported to be availing credit at the rate of around 10% p.a.
* All the respondents expect growth rate to continue on the same path in coming months. Some of the suggestions include:
* Reduction in rate of interest.
* Development of infrastructure.
* Sector is apprehensive about the low domestic and export demand and uncertain economic environment.

***Leather and Footwear***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Positive Outlook | Moderate Outlook | Average Inventory | Positive Outlook | Positive Outlook |

* 80% of the respondents expect growth in production in Q-4 2017-18. This is reflected in order books as well with similar percentage of respondents expecting orders to remain same or increase as compared to previous quarter.
* Current capacity utilization stands at 75% which is more than that of last year for 60% of the respondents. Again, 60% of the respondents are planning to add capacity in near future in the range of 10-25%.
* 50% of the respondents expect an increase in exports during Q-4 2017-18 vis-à-vis the same quarter last year.
* In terms of impact of the rupee appreciation, 50% respondents reported that the exports fell by 0-5% whereas for another one fourth of the survey participants, fall in exports was more than 10%. For 75% of the respondents imported inputs got cheaper by 0-5% due to rupee appreciation during Q-3 2017-18. For another one-fourth of the respondents, imported inputs got cheaper by 5-10%.
* All the respondents indicated increased cost of production during Q-3 2017-18 largely due to rise in raw material costs, reduction in duty drawback benefit and high labour cost.
* 60% of the respondents were maintaining similar inventory as their average inventory levels. For rest of the respondents, inventories were higher than their average levels due to low sales during Q-3 2017-18.
* 60% of the participants are planning to expand their workforce in next six months.
* The sector is availing credit at a rate of around 10% p.a.
* 60% of the respondents expect manufacturing to remain on the same growth path for next six months. Some of the suggested measures to improve growth of manufacturing include:
* Lower interest rates.
* Timely refund of GST returns.
* Skilling centres need to be established in different clusters for skill development.
* Firms in leather and footwear sector are significantly constrained by high prices of raw materials, shortage of working capital finance, labour related issues, uncertain economic environment and availability of skilled labour.

***Machine Tools***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive Outlook | Positive Outlook | Average level | Positive Outlook | Bleak Outlook |

* For the Q-4 2017-18, output growth is expected to remain higher as reported by majority of the respondents vis-a-vis the same quarter last year. The numbers of orders are also likely to go up.
* Currently, the sector is reportedly operating at an average installed capacity of 80% and industry is planning to add further capacity in near future by an average of 5%.
* Respondents in the sector expect their exports to increase in Q-4 on y-o-y basis.
* Due to currency appreciation, exports fell by 0-5% and raw material imports also got cheaper between 0-5% during Q-3 2017-18. However, the cost of production remained same for most of the firms in the machine tools sector.
* Respondents are maintaining average level of inventories in the October-December quarter vis-a vis same quarter of last year.
* Sector is not planning to hire new workforce in any significant manner in next three months.
* On an average, firms in the sector reported to be availing credit at the rate of around 10% p.a.
* The sector representatives expect manufacturing growth to revive in coming six months. Respondents feel, in order to stimulate growth in the sector, the government should reduce GST and import duties on raw materials for the sector.
* Some of the significant constraints for this sector are high prices of raw material 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 | Positive Outlook | Average levels of inventory | Bleak Outlook | Bleak Outlook |

* Production of metal and metal products is likely to have positive growth in Q-4 2017-18 as all the respondents expect either same or higher levels of output when compared to the corresponding period of last year. 60% of the respondents expect a rise in the quantum of orders during this quarter.
* The sector is reportedly operating at an average capacity of 81% which is more as compared to the last year for 50% respondents. However, 70% of the respondents reported that they have no plans to increase their capacity in next 6 months.
* As for exports, 63% of the respondents are expecting a rise in exports for the January-March quarter (y-o-y basis).
* However, for the quarter October-December 2017-18, all exporters were under pressure due to currency appreciation and for 67% importers, the imports also got cheaper within the same range.
* 50% of the respondents indicated increased cost of production, due to increased raw material costs, high electricity tariffs and manpower cost.
* As for the inventory level, 60% of the respondents were maintaining average inventory levels.
* 80% of 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 12%.
* 50% of the respondents feel that growth rate of the manufacturing sector will revive in coming months. Industry suggested the following for revival of sector’s growth:
  + Reduction of interest rates.
  + Simplification of regulatory environment and compliances.
  + Boosting infrastructure development.
  + Rationalization of import duty on raw materials like coking coal etc.
  + Expedite GST refunds.
  + Electricity to be included under GST.
* Most of the respondents feel that high prices of raw materials, low domestic demand, inverted duty structure and deficiency of power are 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 | Improvement expected | Lower than Average | Bleak Outlook | Bleak Outlook |

* Paper producers expect an increase in production level in Q-4 2017-18 as compared to the same quarter last year. The same was reflected in order books as well.
* Industry is reportedly operating at an average capacity of 80% which is similar to that of last year. Owing to excess capacity, most of the respondents reported that they are not planning to increase their capacity in next 6 months.
* On the exports front, all respondents expect a rise in exports during the Q-4 2017-18 as compared to corresponding period of last year.
* The cost of production has increased for all the participants as a result of higher cost of chemical and petroleum products, rising international prices of pulp and high manpower cost.
* All the survey participants reported that they are maintaining low levels of inventory.
* Majority of the respondents are not planning any increase in manpower in next 3 months.
* 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:
  + Need for increased investment in infrastructure development.
  + Need for more support to encourage exports.
* The respondents highlighted deficiency of raw materials, competition faced from imports and availability of skilled labour as other areas of concern for the sector.

***Textiles***

***Quarterly Outlook for the Sector at a Glance***

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

* The output of textiles sector is likely to grow marginally in Q4 of 2017-18 as 85% of the respondents expect either same or slightly high level of production as compared to same quarter last year. Further on sequential comparison, order books were marginally higher.
* The industry is reportedly operating at 80% of its installed capacity which is same as that of last year for 60% of the firms. 75% of the respondents are not planning any capacity addition in next 6 months.
* 63% respondents are expecting exports to remain at same level or increase marginally only during Q-4 vis-à-vis the same quarter last year.
* 69% of the respondents reported a fall in exports by 0-5% as a result of rupee appreciation and other issues like delay in GST refunds.
* 65% of the respondents registered a rise in the production cost owing to increase in raw material costs and labour cost and less capacity utilisation during last year.
* 65% of the respondents reported that they were maintaining level of inventory at par with their average level during Q-3.
* 85% of the respondents are not planning to hire any additional workforce for next three months.
* The average rate of interest for availing credit for the sector is around 10.5% pa.
* 55% of the respondents expect the growth rate of manufacturing sector to remain at same level while 40% believe it to revive in coming months. To revive the growth, industry has given the following suggestions:
* Refund of GST input credit in a timely manner.
* To ensure uninterrupted power supply for the sector, open access to be allowed.
* Enhance MEIS and ROSL benefits for exports.
* Eliminate ECGC premium on export credit.
* Reduction in interest rates.
* Reduction in transaction costs including logistics costs.
* Improvement in infrastructure.
* Labour reforms for the sector.
* Stability of exchange rates.
* Increasing income opportunities for rural areas so as to create demand in rural areas as well.
* Need for strengthening skill development programmes so as to mitigate increasing labour cost burden in the sector.
* High prices of raw materials, shortage of working capital finance, availability of skilled labour, low domestic and exports demand 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** |
| Bleak Outlook | Bleak Outlook | Average levels of inventory | Not expected in next 6 Months | Bleak Outlook |

* For Q-4 2017-18, majority of the participants expect their production level to be lower than that of same quarter last year. The same is reflected in the order books as well.
* The average capacity utilization of the sector is hovering around 60% with all the respondents operating at lower capacity as that of last year. There are no plans for capacity expansion as reported by the respondents.
* On an annual basis, respondents are expecting exports to remain subdued in Q-4 compared to last year.
* Respondents felt that the recent rupee appreciation has affected exports in the range of 5-10% and imports have also got cheaper between 0-5% during Q-3 2017-18.
* The respondents reported an increase in the cost of production during Q-3 2017-18 due to high raw material and wage 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:
* Increasing customs duty from 5% to 7.5% on textile machinery that are domestically manufactured and the duty on the components should be at 5%.
* Reducing the customs duty from 5% to Nil on dedicated components as is the case with shuttleless looms.
* Discouraging import of second hand machinery for modernization.
* Discouraging import of cheap and old technology machinery by providing necessary safeguard measures.
* Introducing Technology Upgradation Fund Scheme (TUFS) 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.
* Competition faced by imports, inverted duty structure and low domestic and export demand are other constraints faced by the sector.

**\*\*\*\*\***