FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

October 2018

Manufacturing Division

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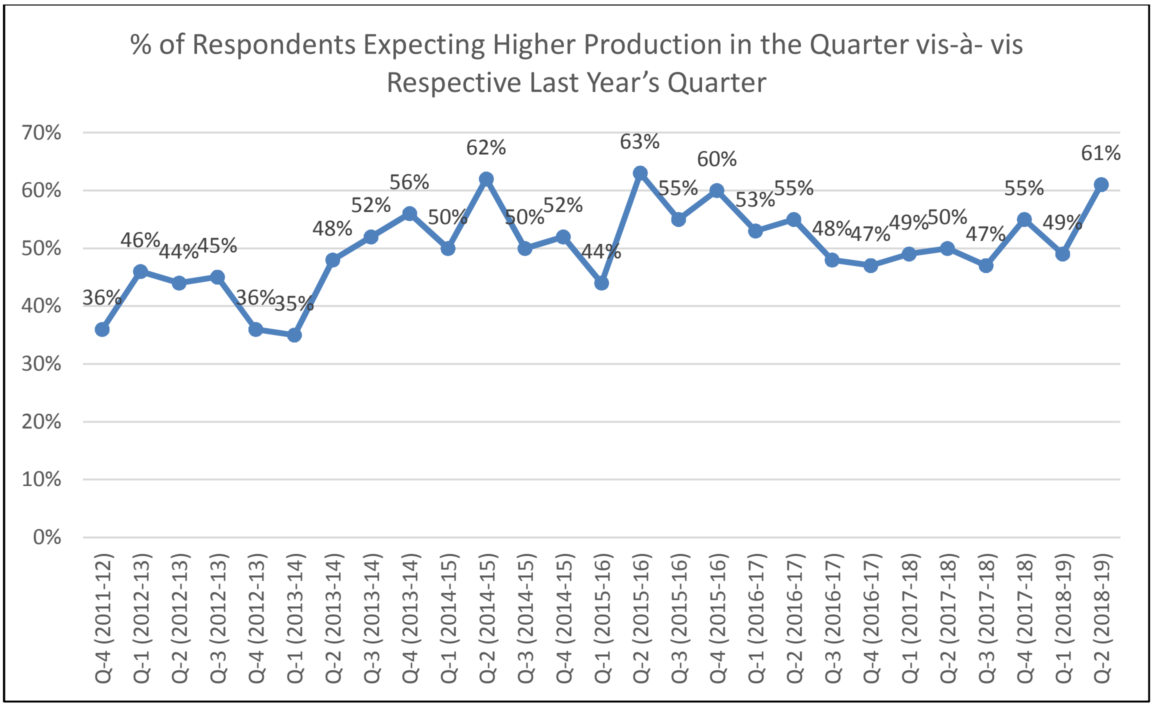
Introduction & Quarterly Assessment for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the sentiments of manufacturers for Q-2 (July-September 2018-19) for twelve major sectors namely automotive, capital goods, cement and ceramics, chemicals, fertilizers and pharmaceuticals, electronics & electricals, food products, leather and footwear, medical devices and technologies, metal & metal products, paper products, textiles machinery and textiles. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over 2.8 lakh crore.

- FICCI's latest quarterly survey on Manufacturing portrays positive outlook for the manufacturing sector in Q-2 (July-September 2018-19) as the percentage of respondents reporting higher production in second quarter has increased significantly vis-à-vis previous quarter Q-1 2018-19.
- The proportion of respondents reporting higher output growth during the July-September 2018 quarter has increased to 61% from 49% in April-June 2018. This is the highest percentage of respondents expecting higher production since Q-2 2015-16 where 63% of respondents expected higher production- twelve quarters high. The percentage of respondents reporting low production has also decreased to 9% in Q-2 2018-19 from 13% in Q-1 of 2018-19.
- In terms of order books, 57% of the respondents in July-September 2018 are expecting higher number of orders against 49% in April-June 2018.

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



Source FICCI Survey

<u>Capacity Addition & Utilization</u>

- Overall capacity utilization in manufacturing still remains the same. The average capacity utilization for the manufacturing sector is about 77% as reported in the survey which is same as that of previous quarter.
- The future investment outlook is moderate with 45% respondents reporting plans for capacity additions for the next six months. High raw material prices, high cost of finance, uncertainty of demand, shortage of working capital, excess capacities, availability of land at reasonable prices are some of the major constraints which are affecting expansion plans of the respondents.
- In sectors like automotive, cement and ceramics, electronics and electricals, metal and metal products, textiles, and textiles machinery average capacity utilization has either

increased or remained almost same in Q-2 of 2018-19 as compared to Q-1 2018-19. In capital goods, chemicals, fertilizers and pharmaceuticals, leather and footwear and paper products, the capacity utilization has fallen in Q-2 2018-19 vis-à-vis Q-1 2018-19.

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

Sector	Average Capacity Utilization in Q-2 2018-19	Average Capacity Utilization in Q-4 2017-18 & Q-1 2018-19	Average Capacity Utilization in Q-3 2017-18
Automotive	73	73	78
Capital Goods	73	74	70
Cement and Ceramics	70	70	73
Chemicals, Fertilizers & Pharmaceuticals	82	84	78
Electronics & Electricals	69	65	76
Food Products	60	NA	NA
Leather & Footwear	60	70	75
Medical Devices and Technologies	70	NA	NA
Metals & Metal Products	86	75	81
Paper Products	88	95	NA
Textiles	83	80	80
Textiles Machinery	60	60	60

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

Inventories

- 83% of the respondents maintained either more or same level of inventory, which is more as compared to 69% in the previous quarter. This has been due to low demand and impact of GST on sales.

Exports

- The outlook for exports is also somewhat positive as half of the participants are expecting a rise in exports for Q-2 2018-19 and 32% are expecting exports to continue on same path as that of same quarter last year.

- However, rupee depreciation has not led to any significant increase in exports during Q-1 2018-19 as 83% of the respondents reported that the exports were not effected much by rupee depreciation. Thereby, emphasizing that there were other global factors that are stymieing the growth of our exports.

Hiring

- Hiring outlook for the sector remains subdued in near future as 65% of the respondents mentioned that they are not likely to hire additional workforce in next three months. However, this proportion has also declined slightly as compared to the previous quarter where 69% of the respondents were not in favour of hiring additional workforce.

Interest Rate

- Average interest rate paid by the manufacturers has remained same vis-à-vis the last quarter standing at 10.2% p.a. 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 Cement and Ceramics, Capital Goods, Automotive and Medical Devices & Technologies in Q-2 2018-19 whereas moderate growth is expected in Textiles, Textile Machinery, Metal and Metal Products, Electronics & Electricals, Chemicals, Fertilizers and Pharmaceuticals, Food Products and Paper Products.

Table: Growth expectations for Q-2 2018-19 compared with Q-2 2017-18

Sector	Growth Expectation
Cement and Ceramics	Strong
Capital Goods	Strong
Automotive	Strong
Medical Devices and Technologies	Strong
Textile Machinery	Moderate

Textiles	Moderate
Metals and Metal Products	Moderate
Electronics & Electricals	Moderate
Chemicals, Fertilizers & Pharmaceuticals	Moderate
Food Products	Moderate
Paper Products	Moderate
Leather & Footwear	Low

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5%

Source: FICCI Survey

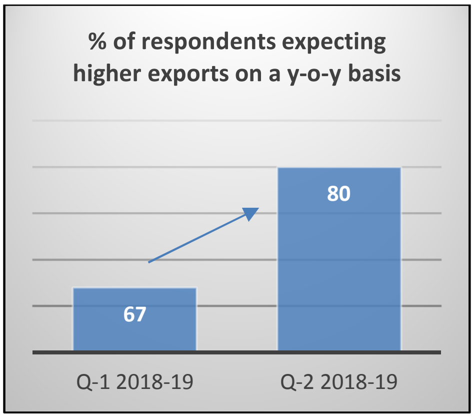
Production Cost

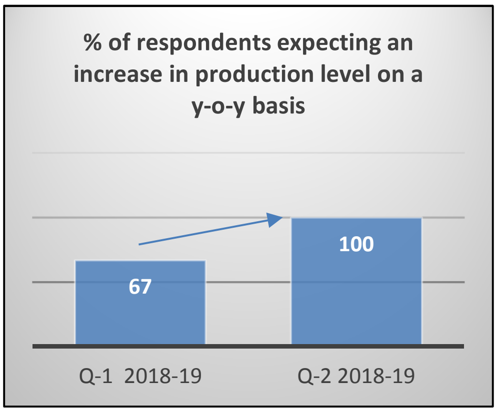
- The cost of production as a percentage of sales for manufacturers in the survey has risen for 71% respondents. This is primarily due to increased cost of raw materials, wages, power cost and rupee depreciation.

Automotive

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive	Positive	Average Level	Positive	Moderate





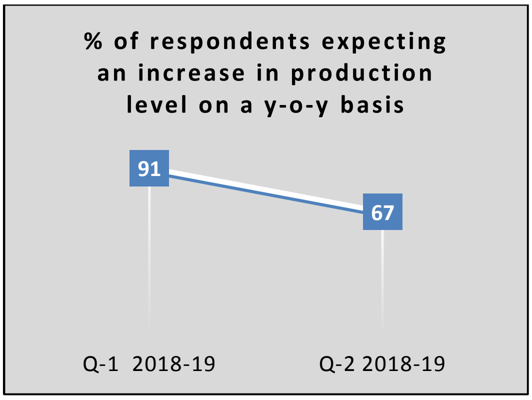
- For the Q-2 2018-19, all the respondents expected an increase in the production level as compared to same quarter last year. This is reflected in order books as well with higher number of orders vis-a-vis last quarter.
- Currently, the sector utilizes 73% of its installed capacity which is more than that of last year for 83% of the respondents. Also, it is important to note that 83% of the respondents are planning for expansion in next 6 months.
- More than 80% of the respondents expect higher exports in July-September quarter vis-à-vis the same quarter last year. Growth is expected in exports in the range of 5-20%.
- 67% of the respondents reported that exports were not effected despite rupee depreciation during April-June 2018 quarter. On the other hand, 80% of the surveyed firms reported that the imports of raw materials got expensive in the range of 0-10% due to currency depreciation.

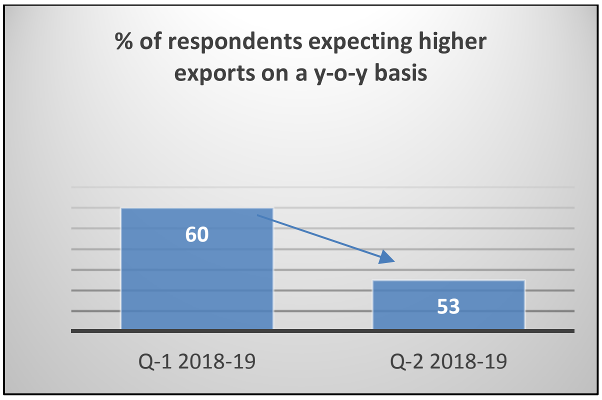
- All the participants mentioned that the cost of production as a percentage of sales has risen in the last few months. Some of the reasons for this included increased steel and fuel prices, increase in manpower cost and increased power cost.
- One third of the respondents are reportedly maintaining lower inventories owing to increased sales and increased demand especially in the construction sector.
- 50% of the survey participants are planning to hire additional workforce in the next few months.
- The survey participants reported availing credit at an interest rate of around 10% p.a.
- Only one third of the respondents expect growth of manufacturing to accelerate in next six months. The sector has suggested following to accelerate growth:
    - ⇒ Proactive lending by banks to Small and Medium Enterprises in manufacturing sector
    - ⇒ Interest rates need to be lowered
    - ⇒ Increased investment in infrastructure development
    - ⇒ Provision of capital subsidies for new investment
    - ⇒ To reduce GST for auto parts
- High prices of raw materials, deficiency of raw material, low export demand and non-availability of skilled labour are some of the significant constraints faced by the sector. Other constraints faced by the sector are inverted duty structure, labour related issues and competition faced from imports.

Capital Goods

Quarterly Outlook for the Sector at a Glance

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





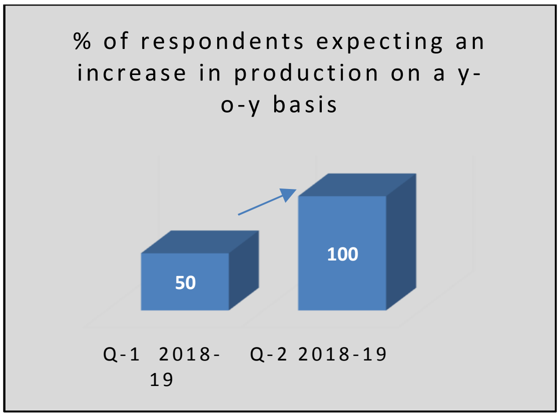
- Two third of the respondents expect higher production in July-September 2018-19 quarter vis-à-vis the same quarter last year. This also gets reflected in order books as 80% of the respondents reported higher number of orders as compared to previous quarter.
- On an average, the sector is utilizing about 73% of its capacity which stands at a higher level than that of previous year for 53% of the respondents. It is worth noting that 47% of the participants are planning to add capacity in next 6 months.
- On the exports front, 53% of the respondents expect a rise in exports in Q-2 2018-19 over Q-2 2017-18. Another 20% of the surveyed firms are expecting same exports as in Q-2 2017-18.
- 93% of the respondents reported that their exports were not effected despite rupee depreciation during April-June 2018 quarter. On the other hand, 50% firms reported that the imports of raw materials got expensive by more than 10% due to currency depreciation.
- 73% of the respondents reported a rise in the cost of production during Q-1 2018-19 due to high raw material prices, high manpower cost and transportation cost.

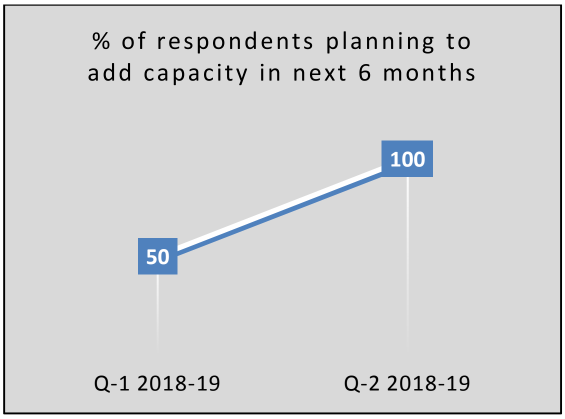
- 87% of the respondents are maintaining average inventory levels while others have reported to maintain lower than average inventories.
- One third of the respondents from this sector are planning to hire new workforce in near future.
- On an average, the industry reported to be availing credit at an interest rate close to 11% p.a.
- About half of the respondents expect growth of manufacturing to revive in near future. Following suggestions have been proposed for faster revival of growth in the sector:
  - ⇒ Pending GST related issues need to be resolved on a timely basis.
  - ⇒ Credit needs to be provided at lower rates to the industry.
  - ⇒ Further reforms in Ease of Doing Business to facilitate large investments.
  - ⇒ Railways, Ports, Bridges, Dams, Metros, Power and Real Estates need to be given priority to revive the growth of manufacturing sector
  - ⇒ Labour laws need to be made industry friendly.
  - ⇒ Scaling up training programmes for skill development in the sector.
  - ⇒ Promotion of import substitution
- Deficiency and high prices of raw materials are reportedly some of the significant constraints for the sector which are restricting its growth. Other constraints include labour related issues, non-availability of skilled labour, shortage of working capital finance, low domestic and export demand.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Positive	Average level	Positive	Moderate





- All the respondents expected higher production in Q-2 2018-19 vis-à-vis the same quarter last year.
- Average capacity utilization in the sector stood at 70% which is higher than that of last year. All the respondents are planning to add significant capacity in next few months.
- Respondents in cement and ceramics sector are expecting a rise in exports vis-à-vis July-September 2017.
- Respondents reported that both exports of their products and imports of raw material were not effected by rupee depreciation during April-June 2018 quarter.
- 50% of the respondents reported rise in the cost of production as a percentage of their sales vis-à-vis last year as a result of increase in raw material prices, power and manpower cost.
- Respondents were reportedly maintaining average inventory levels.
- 50% of the firms covered were planning to hire new work force in the next six months.
- Respondents reported that they are availing credit at an average rate of around 9% p.a.
- Half of the respondents are of the view that growth of manufacturing sector is likely to accelerate while others reported it to continue on the same growth path. Major

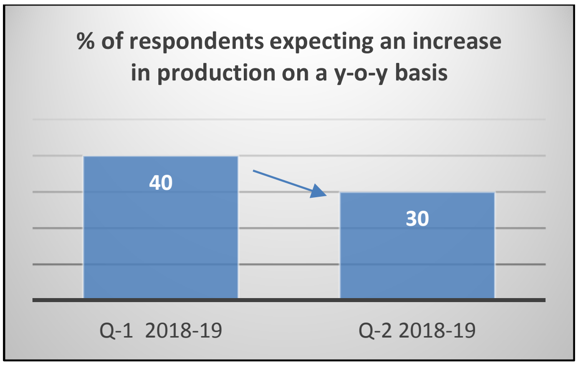
recommendations for the sector were to deal with compliance issues in GST system and increase investments in infrastructure projects.

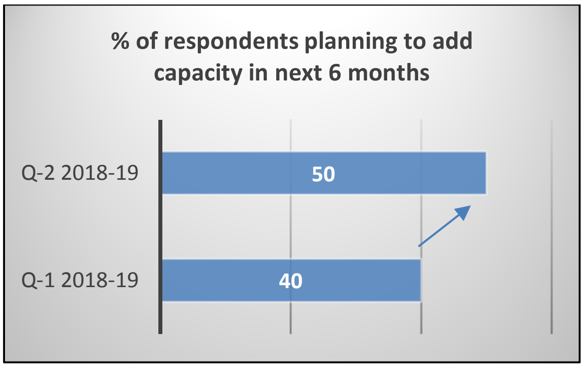
- Some of the constraints hampering growth of the sector significantly include high prices of raw materials, deficiency of raw material, inverted duty structure, labour related issues and competition faced from imports. Deficiency of power, shortage of working capital finance and low domestic demand are other constraints faced by the sector.

Chemicals, Fertilizers & Pharmaceuticals

Quarterly Outlook for the Sector at a Glance

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





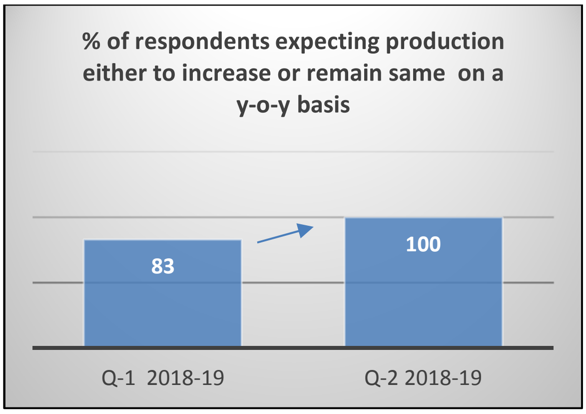
- 60% of the respondents expect same production in Q-2 2018-19 vis-à-vis the same quarter last year. Another 30% are expecting rise in production in July-September compared to the year ago quarter. The same is reflected in order books as 60% of the respondents reported same orders in Q-2 2018-19 as that of previous quarter.
- Average capacity utilization stood at approximately 82% for this sector and is at higher level for 50% of the respondents as compared to last year. Also, 50% of the respondents are planning to add capacity in next 6 months.
- Two third of the respondents expected same level of exports in Q-2 2018-19 as compared to the same quarter last year. For the majority of respondents (83%), exports were not effected despite recent rupee depreciation. While for the rest, exports increased by 10-12%. On the other hand, 71% of the surveyed firms also reported that imports of raw materials got expensive due to currency depreciation in the range of 0-10%.

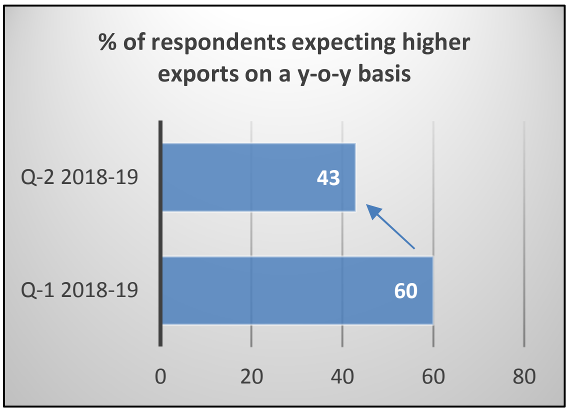
- 33% of the respondents reported no change in the cost of production vis-à-vis last year. However, for others, cost of production increased due to high raw materials costs, increased manpower cost and rupee depreciation.
- Half of the respondents maintained their average inventory levels and another 20% of the respondents maintained lower inventory than their average levels.
- 70% of the surveyed firms are not planning to add workforce in near future.
- Manufacturers are reportedly availing credit at an average rate of around 10% p.a.
- Most of the respondents (56%) expect manufacturing growth to revive in coming months. Following measures are suggested by respondents for early revival of growth:
  - ⇒ Further simplification of approval process for expansion
  - ⇒ Facilitate infrastructure like the natural gas pipeline, to scale up production.
- High prices of raw materials, inverted duty structure, shortage of working capital finance, low domestic demand and competition faced from imports 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	Moderate	Average level	Negative	Bleak





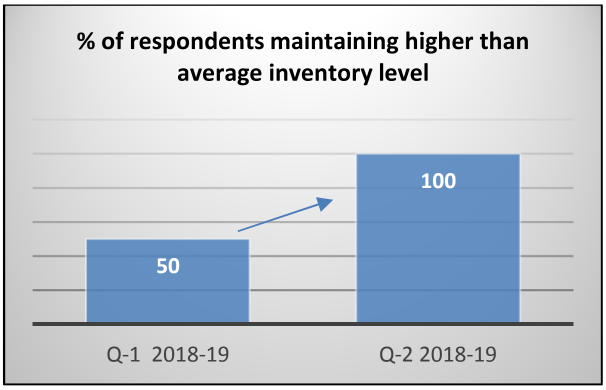
- For Q-2 2018-19, all the respondents expect production to increase or remain same as compared to same quarter last year. 90% respondents reported a rise in order books for Q-2 2018-19.
- The sector is utilizing about 69% of its installed capacity. Half of the reported firms are maintaining same installed capacity as compared to that of last year. 90% of the respondents in this sector are not planning to add capacity in next six months.
- 43% of the respondents expect a rise in exports while 29% reported exports to remain same as that of the last year in July-September quarter.
- Exports of 86% of the respondents did not increase despite rupee depreciation. Further, for the same percentage of respondents, imports of raw materials got expensive by 0-10% during the same period.
- Cost of production increased for half of the respondents due to high raw material prices, interest rates, high manpower cost and currency depreciation.
- 63% of the respondents were reportedly maintaining same level of inventories.

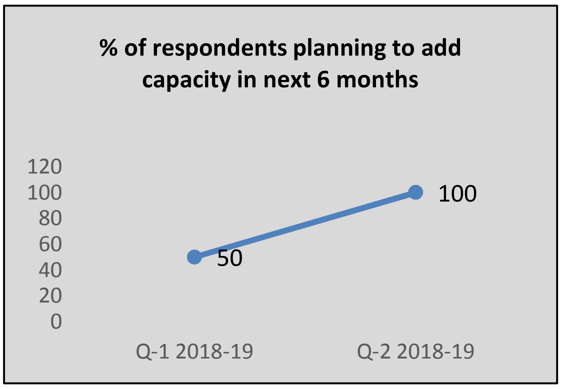
- About three fourth of the respondents were not having any plans of hiring additional work force in next 3 months.
- Industry's respondents reportedly are availing credit at an average rate of around 10% p.a.
- 43% of the respondents expect the sector to revive in next six months. Following was suggested to boost growth of manufacturing:
  - ⇒ Reduction of GST rate for manufacturing sector
  - ⇒ Better infrastructure such as transport, electricity etc.
  - ⇒ Need for reducing rate of interest.
  - ⇒ Need for labour reforms in the sector to introduce flexibility in labour laws
  - ⇒ Inclusion of electricity in GST
- High prices of raw materials, low domestic and export demand and 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	Moderate	Higher than Average level	Positive	Negative





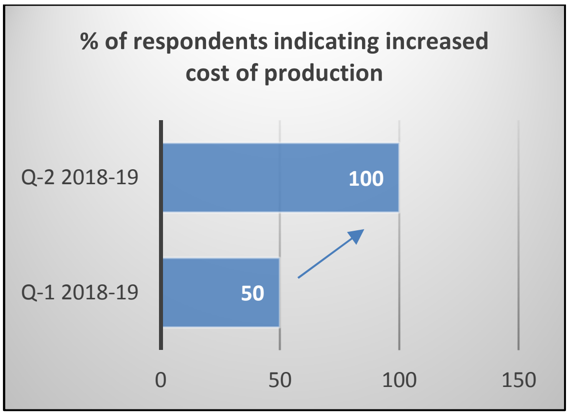
- The respondents in this sector expected production to remain same during Q-2 2018-19 compared to the same quarter last year.
- The sector is utilizing 60% of its installed capacity. Almost all the respondents are planning to add capacity in next few months.
- All the respondents are expecting exports to remain same in July-September 2018 quarter compared to the same quarter last year.
- Due to rupee depreciation, exports of food products increased by 5% in Q-1 of 2018-19, while raw material imports were unaffected.
- For all respondents, cost of production has remained same as last year as a percentage of their sales.
- All the respondents were maintaining higher than their average inventory levels.
- None of the surveyed firms are planning to hire new workforce in a significant manner.
- On an average, firms in the sector reported to be availing credit at the rate of around 9% p.a.

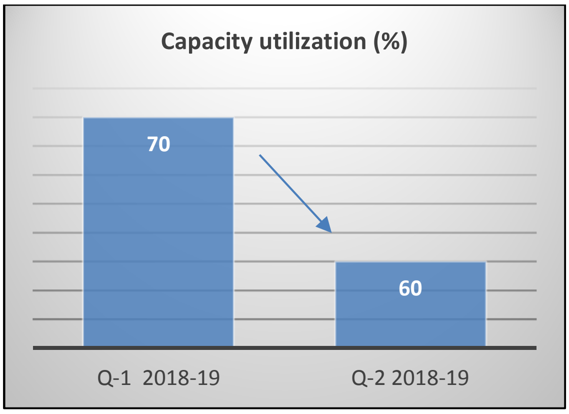
- Respondents expect growth of the sector to slowdown in coming months. Some of the suggestions for reviving growth include:
  - ⇒ Resolve issues in GST refund mechanism to ensure availability of adequate working capital
  - ⇒ Availability of credit at reasonable interest rates.
- Sector is apprehensive about shortage of working capital finance and low domestic and export demand. Other constraints faced by the sector are deficiency of power, labour related issues and non-availability of skilled labour.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Positive	Average level	Positive	Moderate





- Leather manufacturers expected growth in production in July-September 2018 quarter as compared to the same quarter last year. This is reflected in order books as well with higher number of orders vis-a-vis last quarter.
- Current capacity utilization stands at 60% which is same as that of last year for most of the respondents. Firms which have applied for grant under integrated development of leather sector (IDLS) are planning to add capacity in near future.
- All the respondents expected higher exports during Q-2 2018-19 vis-à-vis the same quarter last year.
- In terms of impact of rupee depreciation during April-June 2018 quarter, for 33% of the respondents, imported inputs got expensive by 5-10%, while exports remain uneffected.
- Cost of production increased during the quarter owing to increased import duty on footwear components and lining /interlining materials, non-wovens etc.
- The respondents in leather and footwear sector were maintaining average inventory levels.
- 50% of the participants are planning to expand their workforce in next six months.

- The sector is availing credit at a rate of around 11% p.a.
- 67% of the respondents expect manufacturing to revive in next six months. Some of the suggested measures to improve growth of manufacturing include:
  - ⇒ Land availability at reasonable prices to set up new clusters
  - ⇒ Favourable labour laws, keeping in view the seasonal nature of the leather industry
  - ⇒ Credit at low interest rate to export oriented units
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, labour related issues, shortage of working capital finance, low export demand, non-availability of skilled labour and competition faced from imports.

Medical Devices and Technologies

Quarterly Outlook for the Sector at a Glance

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

- Production of medical devices and technologies is expected to be positive in July-September 2018 as all the respondents expect production to rise or remain same when compared to the corresponding period of last year. The same trend was reflected in the quantum of orders during this quarter.
- The sector is reportedly operating at an average capacity of 70% which is same as compared to the last year for all the respondents. Also, 50% of the respondents reported that they have plans to increase their capacity in next 6 months.
- As for exports, 50% of the respondents expect a rise in exports significantly for the July-September quarter (y-o-y basis).
- However, for the quarter April-June 2018, exports did not rise despite rupee depreciation. For all the importers, the imports got expensive within the range of 0-5%.
- 50% of the respondents indicated increased cost of production, due to currency depreciation.
- All the respondents were maintaining average inventory levels, as reported.
- All the 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 around 8%.
- Respondents feel that growth rate of the manufacturing sector will remain same in coming months. Industry suggested the following for acceleration of sector's growth:
  - ⇒ Increase tariff protection for domestic producers
  - ⇒ Increase power and water supply in industrial parks like SIPCOT

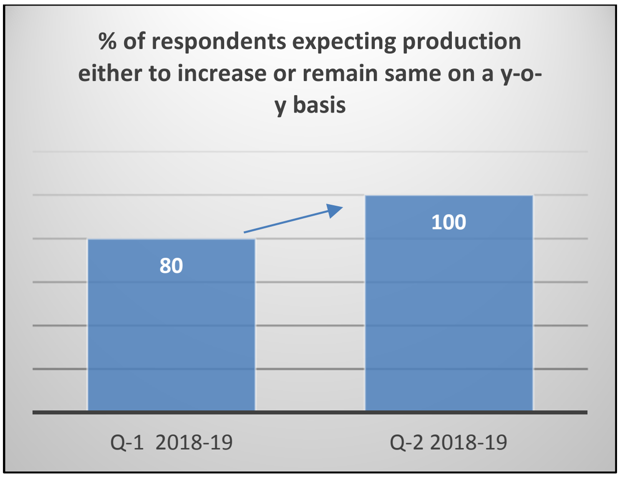
⇒ Need to improve transport infrastructure for SIPCOT industrial park

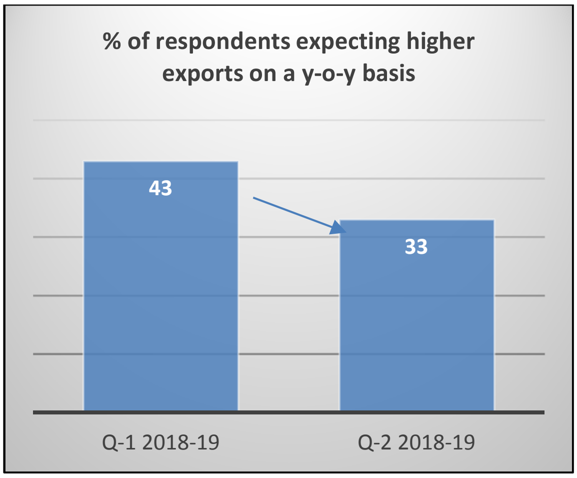
- Most of the respondents felt that inverted duty structure, deficiency of power, low domestic and export demand and competition faced from imports are the most significant constraints for the industry's growth.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive	Moderate	Average level	Bleak	Not Expected





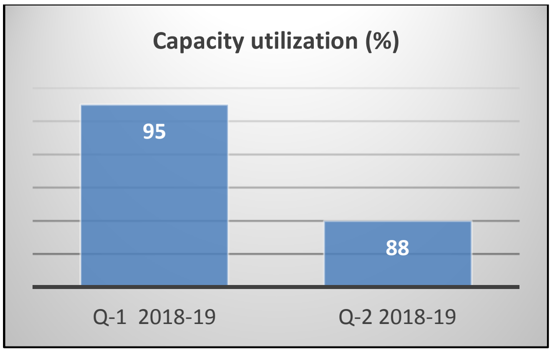
- Production of metal and metal products is expected to be positive in Q-2 2018-19 as all the respondents expect production to rise or remain same when compared to the corresponding period of last year. The same trend was reflected in the quantum of orders during this quarter.
- The sector is reportedly operating at an average capacity of 86% which is more than last year for 55% respondents. Also, 64% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- As for exports, 33% of the respondents expect a rise in exports for the July-September quarter (y-o-y basis). Another 56% expect exports to remain same.
- Exporters reported that exports did not rise despite rupee depreciation. For 71% importers, the imports got expensive within the range of 0-10% due to rupee depreciation.
- 64% of the respondents indicated increased cost of production, due to increased raw material costs, high manpower cost and currency depreciation.

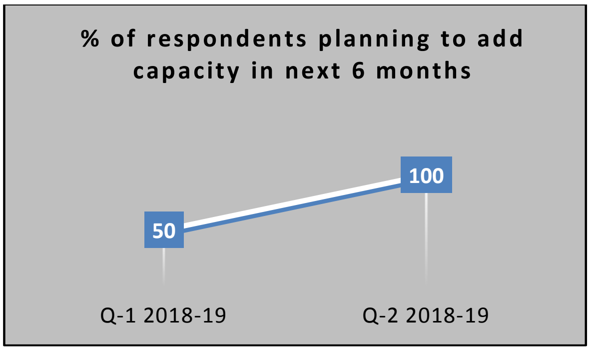
- As for the inventory level, 64% of the respondents were maintaining average inventory levels.
- 82% of the metal sector respondents have reported that they do not have any plans to hire new workforce in next 3 months. Those who are planning to hire are planning to increase their workforce by 5-20%.
- The respondents reported to have availed credit from banks at an average rate of around 11%.
- 55% of the respondents felt that growth rate of the manufacturing sector will revive in coming months. Industry suggested the following for acceleration of sector's growth:
  - ⇒ Interest rates need to be lowered.
  - ⇒ Increase expenditure on new infrastructure projects to revive demand.
  - ⇒ Further simplification of regulatory procedures
  - ⇒ Rationalization of fuel prices
- Most of the respondents felt that high prices and deficiency of raw materials, low domestic demand, competition faced from imports and non-availability of skilled labour 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
Moderate	Moderate	Less than average level	Positive	Moderate





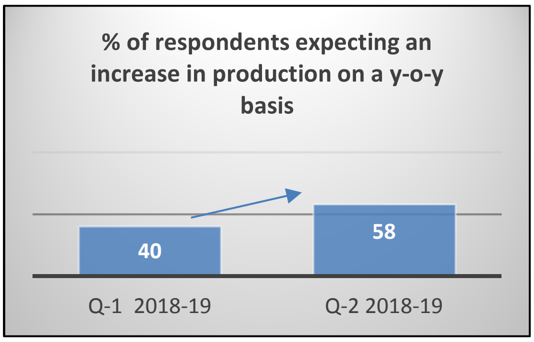
- For Q-2 2018-19, 50% of the participants expect their production level to be more than that of same quarter last year, whereas the other half expects the production to be lower than that of last year.
- The average capacity utilization of the sector is hovering around 88% with 50% of the respondents operating at higher capacity than that of last year. Majority of the respondents plan to expand capacity in next six months.
- On an annual basis, half of the surveyed firms are expecting exports to increase in Q-2 2018-19. Paper exporters were not much effected by the recent rupee depreciation.
- Due to rupee depreciation, the imported inputs of 50% paper sector respondents got expensive by 0-5%.
- Cost of production remained same for most of the respondents.
- Industry's respondents are availing credit at an average rate of 11%.
- All respondents in the sector reported that their current inventory level is less than the average inventory level.
- 50% of the respondents are planning to hire in next 3 months.

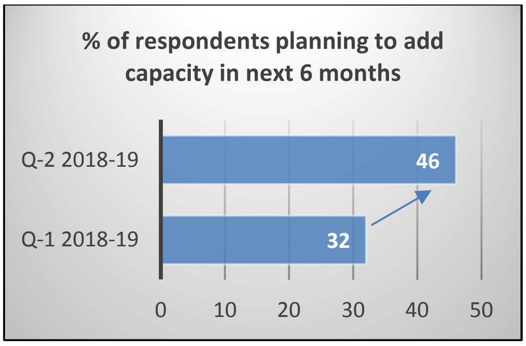
- The sectoral growth rate is likely to accelerate for 50% of respondents in next six months. The industry has suggested the following:
  - ⇒ There is a need to simplify procedures under GST to increase compliance in filing of returns
  - ⇒ Further easing of doing business
  - ⇒ Need to make the labour laws industry friendly
- Competition faced from imports is a significant constraint for the sector which is restricting its growth. While deficiency and high prices of raw materials, inverted duty structure, shortage of working capital finance and non-availability of skilled labour are other constraints faced by the sector.

Textiles

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive	Moderate	Average level of inventory	Moderate	Moderate





- For July-September 2018, 58% of the participants expect their production level to be higher than that of the same quarter last year. Another 33% expect their production to remain same vis-à-vis last year. The same sentiment is reflected in the order books as well.
- The average capacity utilization of the sector is hovering around 83% with 57% of the respondents operating at same capacity as that of last year. There are plans for capacity expansion by 46% of the respondents.
- On y-o-y basis, 83% of respondents expect exports to rise or remain same in Q-2 of 2018-19. However, 59% of the respondents reported that their exports did not rise despite the recent rupee depreciation. On the other hand, two-third of the respondents reported that the imports of raw materials got expensive by 0-10% due to currency depreciation.
- 83% of the respondents reported an increase in the cost of production due to high raw material, wage cost, rupee depreciation, increase in cost of power and transportation.
- Industry's respondents are availing credit at an average rate of 9.6%.

- 52% of the respondents in the sector have reported that their current inventory level is same as the average inventory level. However, another 17% maintained lower than their average inventory due to increased demand.
- 46% of the surveyed firms are planning to hire new workforce in near future.
- The sectoral growth rate is likely to remain moderate in next six months as per 54% of the survey respondents. The industry has suggested the following for reviving growth:
  - ⇒ Measures to reduce imports of garments from Bangladesh and other SAFTA countries
  - ⇒ The rate of GST on man-made fibres should be reduced from 18% to 12%
  - ⇒ Provide infrastructure for processing and treatment of water effluents
  - ⇒ Expeditious release of accumulated input tax credit under GST to unblock the working capital of industry
  - ⇒ Rate of ROSL to be increased to 5% to cover the embedded cost of inputs
  - ⇒ Interest subvention should be given for yarn exports
  - ⇒ Increase in rate of drawback from 2% to 4% to cover the embedded cost of inputs
  - ⇒ Availability of credit at low interest rate
  - ⇒ Labour laws should be simplified and made industry friendly
  - ⇒ Need to further reduce the regulatory burden on the sector.
- High prices of raw materials, inverted duty structure, low domestic and export demand, competition faced from imports and availability of skilled labour are reportedly some of the significant constraints for the sector which are restricting its growth.

Textiles Machinery

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Positive	Average levels of inventory	No plans	Not expected

- Most of the participants expect their output to be higher in July-September 2018 vis-à-vis the year ago quarter by 2-5%.
- The average capacity utilization of the sector is hovering around 60% with most of the respondents operating at higher capacity than that of last year. There are no plans for capacity expansion in near future.
- On an annual basis, respondents are expecting exports to rise in Q-2 by 7.5% as compared to last year. The exports did not increase despite recent rupee depreciation in Q-1 of 2018-19 whereas imports have got expensive by 0-5% for majority of the respondents.
- Cost of production increased for majority of respondents due to high wage cost and high raw material prices.
- Majority of the respondents in the sector have reported that their current inventory level is at par with the average inventory level. There were no plans to hire new workforce.
- The respondents reported to have availed credit from the banks at an average rate of 10%.
- The sectoral growth rate is likely to revive in next six months. The industry has suggested the following for revival of sector's growth:
  - ⇒ To increase the income tax exemption limit on in-house R&D to 200%. It should also be allowed to the textile machinery manufacturers where the ownership structure is sole proprietorship and partnership.
  - ⇒ Second hand machinery should not be allowed to be imported duty free.
  - ⇒ To remove bottlenecks in EPCG (Export Promotion Capital Goods) under Foreign Trade Policy 2015-2020 to facilitate import of capital goods by Specified Importers

at 'zero duty' for producing quality goods and services to enhance India's manufacturing competitiveness

- ⇒ Since the domestic supplies of EPCG license holders are recognized as "deemed exports" under the EPCG scheme, imports under EPCG scheme should be treated at par with EOU's by eliminating mandatory 'Bank Guarantee' (BG) which will encourage import substitution and provide a level playing field to the industry.
- ⇒ Establishment of a cluster in Western/ Southern India to provide land and ready infrastructure to prospective textile machinery and accessory manufacturers.
- ⇒ To encourage exports particularly to Africa through EXIM bank facilities
- ⇒ Special assistance should be provided for participation in international textile machinery exhibitions.

- Inverted duty structure, low domestic and export demand and competition faced from imports are significant constraints faced by the sector.