FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

February 2019

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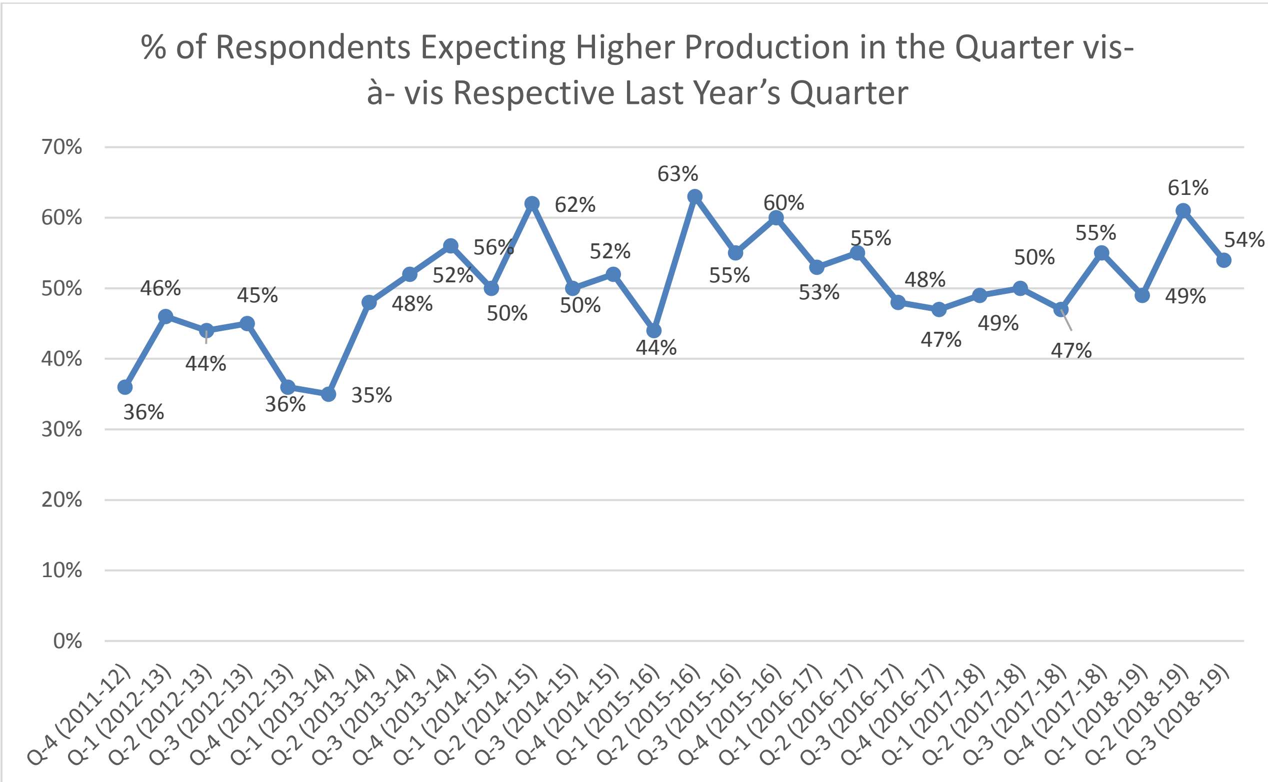
Introduction & Quarterly Assessment for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the sentiments of manufacturers for Q-3 (October-December 2018-19) for eleven major sectors namely automotive, capital goods, cement and ceramics, chemicals, fertilizers and pharmaceuticals, electronics & electricals, leather and footwear, metal & metal products, paper products, textiles, textile machinery and tyre. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over 2.2 lakh crore.

- FICCI's latest quarterly survey on Manufacturing portrays a better outlook for the manufacturing sector in Q-3 (October-December 2018-19) as the percentage of respondents reporting higher production in third quarter were much higher than those reporting higher production in Q-3 of 2017-18.
- The proportion of respondents reporting higher output growth during the October-December 2018 quarter was 54% as compared to 47% in Q-3 of 2017-18. The percentage of respondents reporting low production was only 13.5% in Q-3 2018-19 as compared to 15% in Q-3 of 2017-18.
- In terms of order books, 43% of the respondents in October-December 2018 are expecting higher number of orders against 42% in October-December 2017-18.

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



Source FICCI Survey

Capacity Addition & Utilization

- However, the overall capacity utilization in manufacturing remains low at 75% in Q-3 2018-19. The average capacity utilization for the manufacturing sector in the last few quarters has been around 75% only as per the Survey.
- The future investment outlook, though moderate, is slightly better than that was perceived in Q-3 of 2017-18. 47% respondents reported plans for capacity additions for the next six months (46% in Q-3 of 2017-18).
- High raw material prices, high cost of finance, uncertainty of demand, shortage of skilled labor, high imports, requirement of technology upgradation, excess capacities, delay in disbursements of state and central subsidies are some of the major constraints which are affecting expansion plans of the respondents.

- In sectors like automotive, capital goods, leather and footwear and textiles machinery average capacity utilization has either increased or remained almost same in Q-3 of 2018-19 as compared to Q-2 2018-19. In sectors such as Chemicals, Fertilizers and Pharmaceuticals, Cement and Ceramics, Electronics & Electricals, Metals & Metal Products, Paper Products and Textiles the capacity utilization has fallen in Q-3 2018-19 vis-à-vis Q-2 2018-19.

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

Sector	**Average Capacity Utilization in Q-3 2018-19**	**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	80	73	73	78
Capital Goods	74	73	74	70
Cement and Ceramics	60	70	70	73
Chemicals, Fertilizers & Pharmaceuticals	74	82	84	78
Electronics & Electricals	68	69	65	76
Food Products	NA	60	NA	NA
Leather & Footwear	60	60	70	75
Medical Devices and Technologies	NA	70	NA	NA
Metals & Metal Products	74	86	75	81
Paper Products	80	88	95	NA
Textiles	80	83	80	80
Textiles Machinery	60	60	60	60

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

<u>Inventories</u>

- 86% of the respondents maintained either more or same level of inventory, which is slightly more as compared to 83% in the previous quarter nut less than 90% as was the case in Q-3 of 2017-18. This has been due to low domestic and export demand.

Exports

- The outlook for exports is somewhat stable as 36% of the participants are expecting a rise in exports for Q-3 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 as 78% of the respondents reported that the exports were not affected much by rupee depreciation. Thereby, emphasizing that there were other global factors that are restricting the growth of our exports.

Hiring

- Hiring outlook for the sector seems to have slightly improved for near future. While in Q-3 of 2017-18, 70% respondents mentioned that they were not likely to hire additional workforce, this percentage has come down to 65% for Q-3 of 2018-19. Going forward it is expected that hiring scenario will improve further.

Interest Rate

- Average interest rate paid by the manufacturers has slightly increased to be 10.6% against 10.2% p.a. during last quarter but the highest rate being as high as 17%. The recent cut in repo rate by RBI shall come as a relief for the industry and it expects more reduction in the rates in coming months to drive investments.

Sectoral Growth

- Based on expectations in different sectors, it is noted that high growth is expected in Capital Goods, Textiles and Automotive in Q-3 2018-19 whereas moderate growth is expected in Leather & Footwear, Metals and Metal Products, Paper Products, and Textile Machinery, Tyre and Electronics & Electricals sector. The growth also seems to be more broad-based compared to what it was in Q-3 of 2017-18.

Table: Growth expectations for Q-3 2018-19 compared with Q-3 2017-18

Sector	Growth Expectation
Capital Goods	Strong
Textiles	Strong
Automotive	Strong
Leather & Footwear	Moderate
Metals and Metal Products	Moderate
Paper Products	Moderate
Textile Machinery	Moderate
Tyre	Moderate
Electronics & Electricals	Moderate
Chemicals, Fertilizers & Pharmaceuticals	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 77% respondents. This, of course, is significantly higher than the percentage of 62% for Q-3 of 2017-18. This is primarily due to increased cost of raw materials, wages, power cost, rising crude oil prices, increase in finance cost and rupee depreciation.

Automotive

Quarterly Outlook for the Sector at a Glance

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

- For Q-3 2018-19, half of 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 80% of its installed capacity which is more than that of last year for all the respondents. Also, it is important to note that all the respondents are planning for expansion in next 6 months.
- Majority of the respondents expect same exports in October-December quarter vis-à-vis the same quarter last year.
- None of the respondents reported that exports were effected due to rupee depreciation. On the other hand, import of raw materials got expensive for all the surveyed firms. For half of them, imports got expensive by 0-5%.
- 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 increase in employee cost, input material cost and energy cost.
- Half of the respondents are reportedly maintaining lower inventories owing to implementation of GST and better management.
- All 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 10.25% p.a.
- The sector has suggested following to accelerate growth:
  - ⇒ Interest rates need to be further lowered
  - ⇒ Improve availability of credit for buying automobiles
  - ⇒ Increased spending on infrastructure

- High prices of raw materials, shortage of working capital finance, low domestic and export demand, competition faced from imports 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, deficiency of power and labor related issues.

Capital Goods

Quarterly Outlook for the Sector at a Glance

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

- 64% of the respondents expect higher production in October-December 2018-19 quarter vis-à-vis the same quarter last year. This also gets reflected in order books as 57% of the respondents reported higher number of orders as compared to previous quarter.
- On an average, the sector is utilizing about 74% of its capacity which stands at a higher level than that of previous year for 57% of the respondents. Also, 64% of the participants are planning to add capacity in next 6 months.
- On the exports front, 54% of the respondents expect their exports to be higher or same in Q-3 2018-19 over Q-3 2017-18.
- 77% of the respondents reported that their exports were not effected despite rupee depreciation. On the other hand, 50% firms reported that the imports of raw materials got expensive by 5-10% due to currency depreciation.
- 79% of the respondents reported a rise in the cost of production due to high raw material prices, high manpower and energy cost.
- 64% of the respondents are maintaining average inventory levels while 14% of the respondents have reported to maintain lower than average inventories.
- 57% respondents are not planning to hire additional workforce in near future. Whereas, 43% of the respondents are planning to hire new workforce.
- On an average, the industry reported to be availing credit at an interest rate close to 11% p.a.
- About 43% of the respondents expect growth of manufacturing to remain at same level in near future. Following suggestions have been proposed for revival of growth in the sector:
    - ⇒ Reforms in labor laws

- ⇒ Infrastructure development in Railways, Ports, Bridges, Dams, Metros, Power and Real Estates needs to be given priority to revive demand for capital goods
- ⇒ Further easing of doing business
- ⇒ Reduction in interest rates
- ⇒ More training centres with modern equipment need to be established for training workforce for the sector
- ⇒ Correction of inverted duty structure in the sector

- Deficiency and high prices of raw materials along with shortage of working capital finance are reportedly some of the significant constraints for the sector which are restricting its growth. Other constraints include labor related issues, low domestic demand and availability of skilled labor.

Cement

Quarterly Outlook for the Sector at a Glance

Production	Inventory	Investments for Expansion	Hiring
Positive	Average level	Moderate	Bleak

- All the respondents expected higher production in Q-3 2018-19 vis-à-vis the same quarter last year which is reflected in order books as well.
- Average capacity utilization in the sector stood at 60% which is higher than that of last year. Not many respondents are planning to add significant capacity in next few months.
- Respondents reported their cost of production as a percentage of their sales remained same vis-à-vis last year.
- The sector is reportedly maintaining average inventory levels.
- Not many firms were planning to hire new work force in the next three months.
- Respondents reported that they are availing credit at an average rate of around 9% p.a.
- Respondents are of the view that growth of manufacturing sector is likely to revive in next six months. Major recommendation for the sector was to increase domestic demand through government projects.
- Some of the constraints hampering growth of the sector significantly include prices of raw materials and low domestic demand. Other constraints include deficiency of raw materials, deficiency of power and shortage of working capital finance.

Chemicals, Fertilizers & Pharmaceuticals

Quarterly Outlook for the Sector at a Glance

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

- 83% of the respondents expect either high or same production in Q-3 2018-19 vis-à-vis the same quarter last year. The same trend is reflected in order books as well as 92% of the respondents reported same or more orders in Q-3 2018-19 as that of previous quarter.
- Average capacity utilization stood at approximately 74% for this sector and is at higher level for one fourth respondents as compared to last year. Also, 42% of the respondents are planning to add capacity in next 6 months.
- More than one third of the respondents are expecting more exports in Q-3 2018-19 as compared to the same quarter last year. However, rupee depreciation has little impact on exports for all respondents. On the other hand, 80% of the surveyed firms reported that imports of raw materials got expensive due to currency depreciation.
- Half of the respondents reported increase in the cost of production vis-à-vis last year. The cost of production increased due to increase in the price of raw materials (including natural gas), minimum wage of labor and shortage of intermediates.
- 58% of the respondents maintained their average inventory levels and another 25% of the respondents maintained higher inventory than their average levels.
- 67% of the surveyed firms are not planning to add workforce in near future.
- Manufacturers are reportedly availing credit at an average rate of around 9.5% p.a.
- Most of the respondents (64%) expect manufacturing growth to remain at same level in coming months. Following measures are suggested by respondents for early revival of growth:
  - ⇒ Stabilization of exchange rate
  - ⇒ Cost of power and natural gas should be reduced

⇒ Reduce the GST Rate of raw materials for Chemical Industry

⇒ Facilitate infrastructure like natural gas pipeline to scale up production

- High prices of raw materials is the most significant constraint to the growth of the sector. Other constraint being deficiency of raw materials, inverted duty structure and competition faced from imports.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

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

- For Q-3 2018-19, 71% of the respondents expect production to increase or remain same as compared to same quarter last year. 86% respondents reported same or higher level of orders for Q-3 2018-19 vis-à-vis the previous quarter.
- The sector is utilizing about 68% of its installed capacity. 71% of the reported firms are maintaining higher installed capacity as compared to that of last year. Two third of the respondents in this sector are not planning to add capacity in next six months.
- 43% of the respondents expect a fall in exports while 29% reported exports to remain same as that of the last year.
- None of the exporters conveyed an increase in exports despite rupee depreciation. For all the respondents imported inputs got dearer due to rupee depreciation, for 57% of the respondents, imports of raw materials got expensive by 5-10% during the same period.
- Cost of production increased for 86% of the respondents, reasons being increased import expenses due to rupee depreciation, increased registration and certification cost under quality control order, high raw material prices, interest rates and increased cost of diesel.
- 43% of the respondents were reportedly maintaining more than average level of inventories and an equal percentage of respondents maintained same level of inventories.
- About 71% 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 9% p.a.
- 43% of the respondents expect the sector to remain at same level in next six months. Following was suggested to boost growth of manufacturing:

- ⇒ Improve availability of credit from banks
- ⇒ Further reduction in interest rates
- ⇒ Improving infrastructure such as transport, electricity etc.
- ⇒ Reduction in GST on LED products to 5%
- ⇒ 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. Other constraints deficiency of raw materials and non availability of skilled labor. There is also a need to check low quality imports of electronics products.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate	Moderate	More than average	Positive	Bleak

- Leather manufacturers expected higher growth in production in October-December 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 more than that of last year for all of the respondents. All the respondents are planning to add capacity in near future.
- The sector expects exports to be same during Q-3 2018-19 vis-à-vis the same quarter last year.
- In terms of impact of rupee depreciation, imported inputs got expensive by more than 10%, while exports remain unaffected.
- Cost of production increased during the quarter owing to increased input cost, higher interest cost and higher wages.
- The respondents in leather and footwear sector were maintaining more than average inventory levels due to low sales.
- None 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.
- Respondents expect manufacturing to experience a slowdown in next six months. Some of the suggested measures to improve growth of manufacturing include:
  - ⇒ The process for refund of GST needs to be simplified
  - ⇒ Adequate spending on infrastructure is required
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, inverted duty structure, labor related issues, shortage of working capital finance

and low domestic demand. Other constraints being deficiency of power, low export demand and availability of skilled labor.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

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

- Production of metal and metal products is expected to be positive in Q-3 2018-19 as 50% of the respondents expect production to rise when compared to the corresponding period of last year. A similar percentage of respondents reported higher number of orders as compared to previous quarter.
- The sector is reportedly operating at an average capacity of 74% which is more than last year for 58% respondents. Also, 75% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- As for exports, 50% of the respondents expect a fall in exports for the October-December quarter (y-o-y basis). Another 33% expect exports to remain same.
- 83% exporters reported that exports did not rise despite rupee depreciation. For same percentage of respondents imports became expensive due to rupee depreciation. For 60% importers, the imports got expensive within the range of 5-10% due to rupee depreciation.
- 92% of the respondents indicated increased cost of production, due to increase in prices of major raw materials like iron ore and coking coal, high manpower cost, power cost and currency depreciation making the imported raw materials costly.
- As for the inventory level, 83% of the respondents were maintaining average inventory levels.
- 83% 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 4-5%.
- The respondents reported to have availed credit from banks at an average rate of around 11.5%.

- 50% 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
  - ⇒ Easy availability of raw material especially coal and ore
  - ⇒ Increase the pace of infrastructure development
  - ⇒ Collaboration with the industry players for policy formulation and provide level playing ground to domestic producers against low cost imports
  - ⇒ Need to check low quality imports from competing countries
- Most of the respondents felt that high prices and deficiency of raw materials, 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	Positive	Less than average level	Positive	Negative

- For Q-3 2018-19, all of the participants expect their production to be more than that of same quarter last year.
- The average capacity utilization of the sector is hovering around 80% with all of the respondents operating at higher capacity than that of last year. All of the respondents plan to expand capacity in next six months.
- On an annual basis, all of the surveyed firms are expecting exports to increase in Q-3 2018-19. Paper exporters were benefitted by rupee depreciation.
- However, due to rupee depreciation, the imported inputs of paper sector respondents got expensive by more than 10%.
- Cost of production as a percentage of sales for their product decreased for paper sector respondents as a result of efficiency improvement measures taken by them as well as due to higher volumes.
- Respondents in the sector reported that their current inventory level is less than the average inventory level due to improved sales.
- None of the respondents are planning to hire workforce in next 3 months.
- The sectoral growth rate is likely to revive in next six months. The industry has suggested stable economic policies and need to improve the ease of doing business further for revival of growth.
- 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 and non-availability of skilled labor 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	More than Average inventory	Moderate	Moderate

- For October-December 2018, 47% of the participants expect their production level to be higher than that of the same quarter last year. Another 35% expect their production to remain same vis-à-vis last year. 61% of the respondents reported same or higher number of orders as compared to the previous quarter.
- The average capacity utilization of the sector is hovering around 80% with 44% of the respondents operating at same capacity as that of last year. There are plans for capacity expansion by 44% of the respondents.
- On y-o-y basis, 75% of respondents expect exports to rise or remain same in Q-3 of 2018-19. However, 69% of the respondents reported that their exports did not rise despite the recent rupee depreciation. On the other hand, half of the respondents reported that the imports of raw materials got expensive in the range of 0-10% due to currency depreciation.
- 76% of the respondents reported an increase in the cost of production due to high prices of raw material, wage cost, rupee depreciation, increase in crude oil price in global market, increase in cost of power and transportation.
- Industry's respondents are availing credit at an average rate of 9.6%.
- Half of the respondents in the sector have reported that their current inventory level is more than the average inventory level. However, another 44% maintained same inventory as their average inventory level.
- 50% of the surveyed firms are planning to hire new workforce in near future.
- The sectoral growth rate is likely to revive in next six months as per 39% of the survey respondents. The industry has suggested the following for reviving growth:
    - ⇒ Need to expedite refund of GST input tax credit

⇒ Return of State Levies scheme: need to refund all unadjusted taxes which comes around 7.6%

⇒ Need to reduce interest rates further

⇒ Need to reduce electricity rates

⇒ Skill Development to be strengthened to mitigate increasing labor cost

⇒ Medical Drapes and Gowns need to be regulated by Medical Device Act

⇒ Innovation of new products and services with focus on sustainability

⇒ Provide subsidized transport facilities for ladies especially in rural areas

- High prices of raw materials, shortage of working capital finance, labor related issues, low domestic and export demand, competition faced from imports and availability of skilled labor are reportedly some of the significant constraints for the sector which are restricting its growth. High power cost due to electricity duty and inverted duty structure are other constraints faced by the sector.

Textiles Machinery

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Fall	Average levels of inventory	Moderate	Moderate

- All the participants expect their output to be higher in October-December 2018 vis-à-vis the year ago quarter by 5%.
- The average capacity utilization of the sector is hovering around 60% with 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 fall in Q-3 marginally (2%) as compared to last year. The exports did not increase despite recent rupee depreciation in Q-2 of 2018-19 whereas imports have got expensive by 0-5%.
- Cost of production increased for all the respondents due to Rupee depreciation, wage increase, commodity price inflation and higher power costs.
- The respondents in the sector have reported that their current inventory level is same as their 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 9%.
- 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. Other constraints being faced are liquidity crunch, due to delay in GST refunds.

Tyre

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Negative	Higher than Average level	Moderate	Moderate

- Tyre sector respondents expect production to be higher during Q-3 2018-19 compared to the same quarter last year by 5-8%.
- The sector is utilizing 70% of its installed capacity. Half of the respondents are planning to add capacity in next few months.
- The sector expects exports to be higher in October-December 2018 quarter compared to the same quarter last year by 5-8%.
- Due to rupee depreciation, while exports did not see much change but raw material imports were affected for all of the respondents.
- For all respondents, cost of production has increased as a percentage of their sales due to high raw material prices and increase in manpower cost.
- Half of the respondents were maintaining higher than their average inventory levels.
- Not many firms surveyed 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 11.5% p.a.
- Tyre sector expects growth of the Manufacturing sector to remain at same level in coming months. Some of the suggestions for reviving growth include:
  - ⇒ Need to check imports of Tyres in the country.
  - ⇒ Inverted duty structure needs to be addressed
- Sector is apprehensive about deficiency of raw materials, high prices of raw materials and inverted duty structure. Other constraints faced by the sector are rise in manpower and freight costs.