FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

November 2020

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Introduction & Quarterly Assessment for the Manufacturing Sector

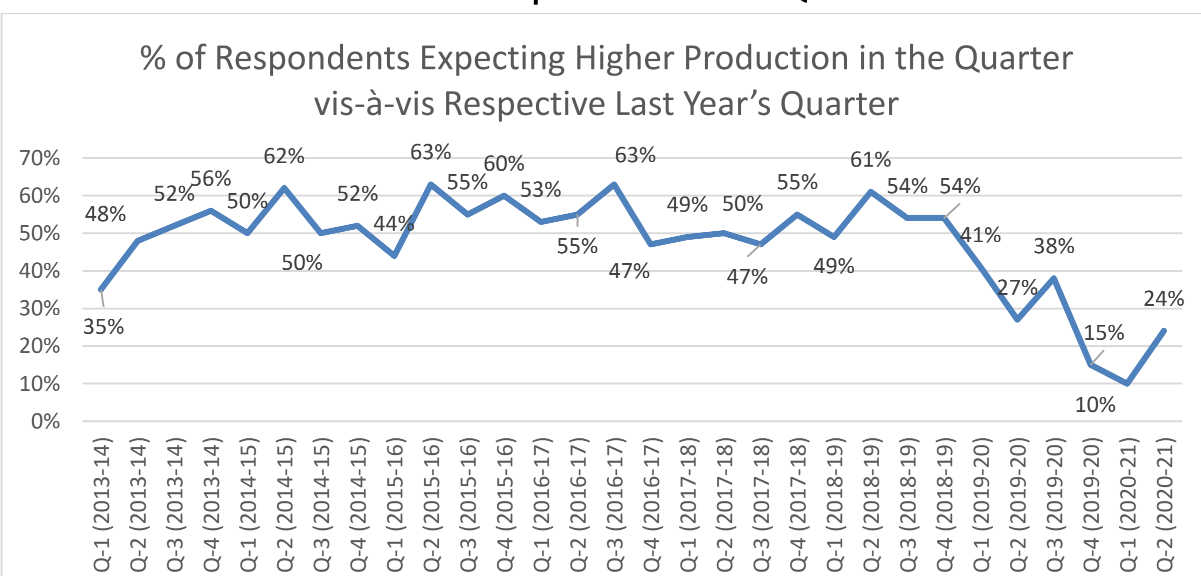
Production and Demand

FICCI's latest quarterly survey assessed the sentiments of manufacturers for Q-2 (July-September 2020-21) for twelve major sectors namely automotive, capital goods, cement and ceramics, chemicals, fertilizers and pharmaceuticals, electronics & electricals, leather and footwear, medical devices, metal & metal products, paper products, textiles, textile machinery, and miscellaneous. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of around Rs 3 lakh crore.

- FICCI's latest quarterly survey on Manufacturing points towards recovery of manufacturing sector for Q-2 (July-September 2020-21) as compared to previous quarter. The percentage of respondents reporting higher production in second quarter of 2020-21 have increased vis-à-vis the Q-1 of 2020-21. The proportion of respondents reporting higher output during July-September 2020 rose to 24%, as compared to 10% in Q-1 of 2020-21. The percentage of respondents expecting low or same production is 74% in Q-2 2020-21 which was 90% in Q-1 of 2020-21.

Figure: % of Respondents Expecting Higher Production in the Quarter

vis-à-vis Respective Last Year's Quarter



Source FICCI Survey

Capacity Addition & Utilization

- The overall capacity utilization in manufacturing has witnessed a rise to 65% as compared to 61.5% in Q4 2019-20.
- The future investment outlook however, is subdued as only 18% respondents reported plans for capacity additions for the next six months as compared to 22% in previous quarter.
- High raw material prices, high cost of finance, shortage of skilled labor and working capital, high logistics cost, low domestic and global demand due to imposition of lockdown across all countries to contain spread of coronavirus, excess capacities due to high volume of cheap imports into India, lack of financial assistance, uncertain demand scenario across globe, complex procedures for obtaining environmental clearances, high power tariff, are some of the major constraints which are affecting expansion plans of the respondents.
- From the table below, it is evident that the average capacity utilization for Q1 2020-21 has increased in sectors such as Automotive, Capital Goods, Metals & Metal Products, Electronics, Paper Products and Textiles.

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

Sector	**Average Capacity Utilization in Q-1 2020-21**	**Average Capacity Utilization in Q-4 2019-20**	**Average Capacity Utilization in Q-3 2019-20**	**Average Capacity Utilization in Q-2 2019-20**	**Average Capacity Utilization in Q-1 2019-20**	**Average Capacity Utilization in Q-4 2018-19**
Automotive	60	50	67	60	80	80
Capital Goods	64	53	67	72	76	74
Cement and Ceramics	60	70	70	73	80	80
Chemicals, Fertilizers & Pharmaceuticals	68	69	76	84	76	77
Electronics & Electricals	66	60	67	74	67	72
Leather & Footwear	56	58	60	50	60	60

Medical Devices	70	70	70	70	70	NA
Metals & Metal Products	75	73	80	78	76	88
Paper Products	60	55	90	88	95	95
Textiles	67	60	83	81	84	82
Textiles Machinery	50	53	67	60	60	60

Inventories

- 77% of the respondents had either more or same level of inventory in July-September 2020, whereas around 74% of the respondents maintained either more or same level of inventory in April–June quarter of 2020-21.

Exports

- The percentage of respondents expecting increase in exports in Q2 2020-21 has increased substantially to 24% when compared to Q1 2020-21, wherein merely 8% respondents were expecting a rise in exports. Also, 19% are expecting exports to continue to be on same path as that of same quarter last year

Hiring

- Hiring outlook for the sector, though bit improving, shows a bleak picture as 80% of the respondents mentioned that they are not likely to hire additional workforce in the next three months. This presents slightly improved situation in the hiring scenario as compared to the previous quarter Q-1 of 2020-21, where 85% of the respondents were not in favor of hiring additional workforce.

Interest Rate

- Average interest rate paid by the manufacturers has reduced slightly to 9.2% p.a. as against 9.4% p.a. during last quarter and the highest rate is reported to be 12.5%. The recent cuts in repo rate by RBI has not led to a consequential reduction in the lending rate as reported by 55% of the respondents.

Sectoral Growth

- Based on expectations in different sectors, all the sectors except Medical Devices are likely to register low growth in Q-2 2020-21. The primary reason for such depressed expectations seems to be the imposition of lockdown, subdued demand, restricted exports and other guidelines in place as a response towards COVID outbreak.

Table: Growth Assessment for Q-2 2020-21 compared with Q-2 2019-20

Sector	Growth Assessment
Medical Devices & Technologies	Strong
Chemicals, Fertilizers & Pharmaceuticals	Low
Cement & Ceramics	Low
Textile Machinery	Low
Textiles	Low
Electronics & Electricals	Low
Capital Goods	Low
Paper Products	Low
Automotive	Low
Metals and Metal Products	Low
Leather and 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 70% respondents. This is higher than that reported in previous year, where 64% respondents recorded increase in their production costs. Industry respondents have attributed the hike in productions costs primarily to high fixed costs, higher overhead costs for ensuring safety protocols, drastic reduction in volumes due to lockdown, lower capacity utilization, high freight charges and other logistic costs, increased cost of raw materials, power cost and high interest rates.

Back to Business Scenario in Manufacturing (Unlock period)

- As evident from the table below, Leather and Footwear & Textiles machinery sector is worst hit in terms of ongoing operations in the factories as per the demand and current orders post easing out of lockdown restrictions.

Table: Operations taking place in facilities post easing of the Lockdown Restrictions

Sector	% of Active Operations
Chemicals, Fertilizers & Pharmaceuticals	76%
Cement & Ceramics	81%
Textile Machinery	46%
Textiles	68%
Electronics & Electricals	69%
Medical Devices & Technologies	63%
Capital Goods	69%
Paper Products	62%
Automotive	54%
Metals and Metal Products	68%
Leather and Footwear	46%

- If one compares current percentage of active operations with the capacity utilization in Q-1, improvement is seen in many sectors like chemicals, cement, textiles, electronics etc,

Sector	Current % of Active Operations	Average Capacity Utilization in Q-1 2020-21
Chemicals, Fertilizers & Pharmaceuticals	76%	68
Cement & Ceramics	81%	60
Textile Machinery	46%	50
Textiles	68%	67

Electronics & Electricals	69%	66
Medical Devices & Technologies	63%	70
Capital Goods	69%	64
Paper Products	62%	60
Automotive	54%	60
Metals and Metal Products	68%	75
Leather and Footwear	46%	56

Workforce Availability

- Below table highlights that sectors like leather and footwear have only half of the total labor force engaged in the operations and are hence facing labor shortage. On the other hand, sectors like chemicals, Fertilizers & Pharmaceuticals witnessed as high as 88% workers attendance at factories.

Table: Workforce Engagement in Factories

Sector	% of workforce engaged in the current operations
Automotive	80%
Capital Goods	76%
Cement and Ceramics	80%
Chemicals, Fertilizers & Pharmaceuticals	88%
Electronics & Electricals	78%
Leather & Footwear	50%
Medical Devices	70%
Metals & Metal Products	80%
Textiles	74%
Textiles Machinery	62%
Miscellaneous	73%

Sourcing Strategies

- While not all sectors indicated a change in their input sourcing strategies but there are plans to shift the sourcing of inputs away from single country in certain areas like Automotive, Electronics & Electricals and textiles machinery.

Table: Sector wise plans to shift away input sourcing from outside

Sector	Changes in Input Sourcing Strategies
Automotive	Around two-third of respondents indicated that they are planning to change their raw material/input sourcing strategies.
Capital Goods	Not planning to change input sourcing strategy
Cement and Ceramics	Not planning to change input sourcing strategy
Chemicals, Fertilizers & Pharmaceuticals	Two-third of the respondents are not planning to change their sourcing strategy
Electronics & Electricals	Around 60% of the respondents mentioned that they are planning to change their raw material/input sourcing strategies.
Leather & Footwear	Two-third of respondents indicated that they are not planning to change their raw material/input sourcing strategies
Textiles	Majority are not planning to change input sourcing strategy
Textiles Machinery	Two-third of respondents indicated that they are planning to change their raw material/input sourcing strategies.

Automotive

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Bleak	Bleak	Average level	Bleak	Bleak

⇒ Majority of the respondents expect growth to be low only in the July- September 2020 quarter vis-à-vis the same quarter a year ago.

⇒ On an average, the sector is utilizing only 60% of its capacity which stands at a lower level than that of previous year for all the respondents. Also, not many respondents are planning to add capacity in next 6 months.

⇒ On the exports front, all the respondents expect their exports to be lesser in Q2 2020-21 over Q-2 2019-20.

⇒ All the respondents reported a rise in the cost of production. This has been attributed to high fixed costs, high prices of materials such as steel, rubber and Emission systems, supply chain disruptions and higher overhead costs for ensuring safety protocols due to Covid.

⇒ Two-Third of the respondents were maintaining less than average inventory levels in April-June 2020-21 whereas half of the respondents expect average inventory levels in the quarter July- September 2020-21.

⇒ Post relaxations in lockdown conditions, on an average only 54% of total operations are taking place in factories/facilities.

⇒ Respondents reported that around 80% of workforce is engaged in their operations.

⇒ Auto sector respondents are not planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.5% p.a.

⇒ 67% of respondents indicated that they are planning to change their raw material/input sourcing strategies. Respondents stated that they are studying the raw materials being imported from a single country and are thinking of diversifying their sourcing destinations.

⇒ Two-third of the respondents expects manufacturing growth to revive in next six months. Following is proposed for revival of growth in the sector:

- Increased spending by the government on infrastructure
- Immediate cash stimulus required to support large enterprises, since many of the suppliers are MSMEs
- Cheap credit availability for MSMEs is required
- Steps such as rationalization of GST rates, introduction of scrappage policy, schemes to boost exports are required.

⇒ Low domestic demand, export issues and supply chain disruptions are the most significant constraints to the growth of the sector. Other constraints faced by the sector are unavailability of raw material & components, labor and consignments stuck at ports.

Capital Goods

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Bleak	Bleak	More than average level	Bleak	Bleak

⇒ 83% of the respondents expect production to be lower in the July- September 2020 quarter vis-à-vis the same quarter a year ago. This trend is reflected in the order books as well as half of the respondents expect orders in Q2 2020-21 to be same or lesser than those in April– June 2020-21.

- On an average, the sector is utilizing about 64% of its capacity which stands at a lower level than that of previous year for 83% of the respondents from capital goods sector. Also, 92% of the participants are not planning to add capacity in next 6 months.
- On the exports front, 64% of the respondents expect their exports to be lesser in Q2 2020-21 over Q-1 2020-21.
- 66% of the respondents reported a rise in the cost of production. This has been attributed to high raw material prices, rupee depreciation, significant drop in sales prices due to increased competition, finance cost, manpower and energy cost. Other reasons highlighted for increased cost of production includes increase in overheads due to lockdown, and costs required for ensuring physical distancing in factories.

⇒ 40% of the respondents were maintaining less than average inventory levels in April-June 2020-21 whereas around a similar percentage of the respondents expects to maintain more than average inventory levels in the quarter July-September 2020.

⇒ According to the respondents in capital goods sector, around 69% of operations is taking place in factories/facilities after the lockdown conditions have been relaxed.

⇒ 73% of the respondents reported that they are not facing any shortage of labor force presently.

⇒ 82% respondents are not planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 9.5% p.a. 60% of the industry respondents feel that the reduction in repo rate has led to a consequential reduction in the lending rate.

⇒ Majority of the respondents indicated that they are not planning to change their raw material/input sourcing strategies.

⇒ 75% of the respondents expects manufacturing growth to revive in next nine or more months. Following is proposed for revival of growth in the sector:

- Need of stimulus package for manufacturing sector along with higher infrastructure spending.
- Provide additional inventive to boost exports
- Increase the availability of finance
- Provide incentive to technology products manufactured in India
- Renovation of old power plants with higher capacity
- Implementation of Mega Thermal Power Projects in a quick manner
- Implementation of Refinery expansion by public / private sector
- Policies promoting domestic manufacturing should be in place.
- Non-Tariff barriers for countries practicing protectionist policies
- Investments in Oil & Gas and Fertilizers sector should proceed as planned.

⇒ Low domestic demand, supply chain issues and export issues are reportedly some of the significant constraints for the sector which are restricting its growth. Other constraints include consignments stuck at ports, unavailability of Raw Material & components and skilled labor.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

Production	Inventory	Investments for Expansion	Hiring
Positive	Average level	Moderate	Bleak

- ⇒ 66% of the respondents expect production to be moderately higher in the July- September 2020 quarter vis-à-vis the same quarter a year ago. This is reflected in the order books as well as all of the respondents expect orders in Q2 2020-21 to be higher than those in April-June 2020.
- ⇒ On an average, the sector is utilizing about 60% of its capacity which stands at a lower level than that of previous year for all the respondents. Some of the respondents reported that they are planning to add capacity in next 6 months.
- ⇒ Half of the respondents reported that their cost of production has remained same as compared to previous year.
- ⇒ 75% of the respondents were maintaining less than average inventory levels in April-June 2020-21 whereas 66% of the respondents expects to maintain average inventory levels in the July-September 2020-21 quarter.
- ⇒ According to the respondents in cement sector, around 81% of operations is taking place in factories/facilities post relaxations in lockdown conditions.
- ⇒ Cement & Ceramics sector respondents reported that around 80% of workforce is engaged in their operations and they are not facing issue of shortage of labor force.
- ⇒ 75% of the respondents are not planning to hire additional workforce in near future.
- ⇒ On an average, the industry reported to be availing credit at an interest rate close to 8% p.a.
- ⇒ Three-fourth of the respondents indicated that they are not planning to change their raw material/input sourcing strategies.
- ⇒ 75% of the respondents expects manufacturing growth to revive in next six months. Following is proposed for revival of growth in the sector:

- Increase spending on public infrastructure
- Easing out of lending rates
- Need to provide direct benefits to the Lower Income Group consumers in order to boost demand
- Availability of funds to the sector to ensure proper liquidity into the system
- Attractive incentive schemes should we worked out to promote setting up of new Industries
- GST rates should be considered to be lowered for items that are of mass consumption and are in higher tax slab.

⇒ Supply chain issues, export issues and unavailability of skilled labor, Raw Material & components are reportedly some of the significant constraints for the sector which are restricting its growth.

Chemicals, Fertilizers & Pharmaceuticals

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Bleak	Less than Average level	Bleak	Bleak

⇒ 63% of the respondents expect production to be higher or same in the July-September 2020 quarter vis-à-vis the same quarter a year ago. This trend is reflected in the order books as well as 78% of the respondents expect orders in Q2 2020-21 to be higher than those in April – June 2020.

⇒ On an average, the sector is utilizing about 68% of its capacity which stands at a lower level than that of previous year for half of the respondents. Also, 88% of the respondents reported that they are not planning to add capacity in next 6 months.

⇒ On the exports front, half of the respondents expect their exports to be lesser in Q2 2020-21 over Q-2 2019-20.

⇒ More than half of the respondents reported that their cost of production has remained same as compared to previous year.

⇒ 44% of the respondents were maintaining average inventory levels in April-June 2020-21 whereas 67% of the respondents expect same or less than average inventory levels in the quarter July-September 2020-21.

⇒ Post relaxations in lockdown conditions, approximately 76% of total operations are taking place in factories/facilities.

⇒ Respondents reported that 88% of the total workforce is engaged in their operations.

⇒ 90% of the respondents are not planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 9% p.a.

⇒ 67% of respondents indicated that they are not planning to change their raw material/input sourcing strategies.

⇒ 67% of the respondents expects manufacturing growth to revive in next six months. Following is proposed for revival of growth in the sector:

- Need to encourage new investments with new schemes and stimulus packages
- Promote ease of doing business (example - simplifying processes for license renewal for continuing operations).
- Create one single window for grievances from entrepreneurs.
- Facilitate infrastructure like the Natural Gas pipeline

⇒ Low domestic demand and export issues are the most significant constraints to the growth of the sector. Supply chain disruptions, Unavailability of raw materials and limited credit and finance availability are other constraints reported by the sector.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

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

⇒ For Q-2 2020-21, half of the respondents expect production to increase compared to same quarter last year. A similar trend is visible for the level of orders for Q-2 2020-21 vis-à-vis the previous quarter as 67% of the respondents are expecting higher orders.

⇒ The sector is utilizing about 66% of its installed capacity. 67% the respondents are utilizing lesser installed capacity as compared to that of last year and half of respondents in this sector reported plans for capacity addition in next six months.

⇒ 67% of the respondents expect the exports to decrease in Q2 2020-21 as compared to the same quarter last year.

⇒ Cost of production as a percentage of sales has increased for two-third of the respondents primarily because of high interest rates, power cost, huge manpower costs, rupee depreciation and high raw material prices.

⇒ Half of the respondents were reportedly maintaining less than average level of inventories in April-June quarter and half respondents are expecting to maintain less than average level of inventories in quarter.

⇒ Post relaxations in lockdown conditions, only 69% of total operations are taking place in factories/facilities as reported by the respondents.

⇒ 60% of the respondents mentioned that they are not planning to change their raw material/input sourcing strategies.

⇒ Half of the respondents are planning to hire additional work force in next 3 months.

⇒ Industry's respondents reportedly are availing credit at an average rate of around 10% p.a. Also, none of the sector respondents reported that reduction in repo rate has been passed on to the borrowers.

- ⇒ 83% of the respondents believe they have sufficient working capital available for investment and expansion.
- ⇒ Half of the respondents expect the sector to revive in next six months. Following was suggested to boost growth of manufacturing:
  - ⇒ Government should spend on building infrastructural capacity.
  - ⇒ Require support in resolving the working capital issues by clearing the outstanding government refunds
  - ⇒ Capping on MEIS export incentive has direct impact on the bottom line of the company, hence it is recommended to explore the option of doing away with ceiling amount
  - ⇒ Need for a new manufacturing policy to boost share of manufacturing sector in India's GDP
  - ⇒ Working capital should be available to industries at a reduced rate of interest
- Supply chain disruptions due to COVID outbreak, low domestic demand and export related issues are the most significant constraint affecting growth of this sector. Other constraints include unavailability of Raw Material & components.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Bleak	Bleak	More than Average level	Negative	Positive

- ⇒ 67% of the leather manufacturers are expecting the production level to reduce in the July-September 2020-21 quarter vis-à-vis the same quarter a year ago. This trend is reflected in the order books as well.
- ⇒ Current capacity utilization stands at 56% which is less than that of last year for all the respondents. None of the respondents are planning to add capacity in near future.
- ⇒ On the exports front, 67% of the respondents expect their exports to be lesser in Q2 2020-21 over Q-2 2019-20.
- ⇒ All the respondents reported a rise in the cost of production. This has been attributed to adopting new working methods to ensure social distancing in factories, high labor cost, raw material cost, high freight charges and other logistic costs.
- ⇒ Two-third of the respondents were maintaining average inventory levels in April-June 2020-21 whereas half of the respondents expect higher than average inventory levels in the quarter July-September 2020-21.
- ⇒ Post relaxations in lockdown conditions, only 46% of total operations are taking place in leather factories/facilities.
- ⇒ Respondents reported that around 50% workforce is engaged in their operations currently.
- ⇒ Two-third of the respondents are planning to hire additional workforce in near future.
- ⇒ On an average, the industry reported to be availing credit at an interest rate close to 9% p.a.
- ⇒ 67% of respondents indicated that they are not planning to change their raw material/input sourcing strategies.
- ⇒ Two-third of the respondents expect manufacturing growth to revive in next six months. Following is proposed for revival of growth in the sector:

- Need of cheaper working capital especially for MSME units
- Interest free loans should be made available to start ups for one year
- Labor laws to be relaxed according to the current difficult situation
- Need for effective stimulus package to strengthen industry

⇒ Firms in leather and footwear sector are significantly constrained by low domestic demand, restricted credit and finance availability and export issues. Other factors constraining the growth of the sector are unavailability of labor and consignment stuck at ports.

Medical Devices

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Positive	Positive	Average	Bleak	Bleak

⇒ All the respondents are expecting higher production levels for July- September 2020-21 quarter as compared to the same quarter last year. Similarly, all the sector respondents expect their orders to be higher for July- September 2020-21 as compared to the previous quarter.

⇒ Average capacity utilization in the sector stood at 70%.

⇒ None of the respondents in the sector are planning to add capacity in next six months.

⇒ All the respondents are expecting exports to be higher in Q-2 2020-21 vis-à-vis the same quarter last year.

⇒ Cost of production increased during the quarter for respondents mainly attributed to the high raw material prices and less orders.

⇒ The respondents in the sector were maintaining average inventory levels in April- June 2020 and are expecting same inventory levels in quarter July-September 2020.

⇒ Post relaxations in lockdown conditions, 63% of total operations are taking place in manufacturing units for medical devices.

⇒ Respondents reported that around 70% of the total workforce is engaged in their operations currently and respondents are not facing shortage of workforce.

⇒ None of the respondents are planning to expand their workforce in next three months.

⇒ The respondents reported that they are availing credit at a rate of 11% p.a.

⇒ Respondents expect growth of manufacturing to revive in next six months.

⇒ Firms producing medical devices are constrained by the unavailability of raw material and components, supply chain disruptions, restricted credit and finance availability. Other issues restricting the growth of this sector are export issues and consignments stuck at ports.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Bleak	Bleak	More than Average level	Bleak	Bleak

⇒ 55% of the respondents in metal and metal products sector expect production to be lower in Q-2 2020-21 when compared to the corresponding period of last year. Similar percentage of respondents reported higher orders compared to previous quarter.

⇒ The sector is reportedly operating at an average capacity utilization of 75% which is same or less than last year for 78% respondents. Also, a similar percentage of the respondents reported that they have no plans to increase their capacity in next 6 months.

⇒ As for exports, 83% of the respondents expect exports to fall or remain same for the July-September 2020-21 (y-o-y basis), the export outlook looks bleak.

⇒ Cost of production increased for 78% respondents, due to increase in procurement cost of basic raw materials, increase in prices of major raw materials, low production due to weak demand, manpower cost, disruption in supply chain, reduced capacity utilization and increased fuel prices.

⇒ As for the inventory level, 55% of the respondents were maintaining average inventory levels in April-June whereas in July-September, 57% of the respondents were maintaining more than average inventory levels.

⇒ Post relaxations in lockdown conditions, 68% of total operations are taking place in factories/facilities.

⇒ Respondents reported that around 80% of the total workforce is engaged in their operations currently and most of the respondents are facing shortage of workforce.

⇒ 89% of the metal sector respondents reported that they were not planning to hire new workforce in next 3 months.

⇒ The respondents reported to have availed credit from banks at an average rate of around 10% p.a. Also, more than half of the respondents reported that reduction in repo rate has not led to a consequential reduction in the lending rate.

⇒ 55% of the respondents felt that growth rate of the manufacturing sector will revive in next six months. Industry suggested the following for acceleration of sector's growth:

- Availability of working capital at lower rate of interest
- Push to big infrastructure projects may help in boosting demand for construction/ earth moving equipment.
- Need to provide a reasonable reduction of GST on high steel consuming sectors like auto and construction
- Fiscal incentives for MSMEs needs to be introduced
- Sufficient funds should be made available to the industry for making new investments

⇒ Most of the respondents felt that low domestic demand and unavailability of labor are the most significant constraints for the industry's growth. Some of the other constraints include export issues, supply chain disruptions and limited credit availability.

Paper Products

Quarterly Outlook for the sector at a glance

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

⇒ For Q-2 2020-21, all the participants expect their production to be less than that of same quarter last year. On the other hand, respondents in the paper sector reported higher number of orders as compared to the previous quarter.

⇒ The average capacity utilization of the sector has gone down to 60% as compared to previous quarters with all respondents operating at lesser capacity than that of last year. Also, respondents are not planning to expand capacity in next six months.

⇒ On an annual basis, half of the surveyed firms are expecting exports to be higher in Q-2 2020-21.

⇒ Cost of production as a percentage of sales for their product increased for all the paper sector respondents due to lower volumes and low capacity utilization.

⇒ Half of the respondents in the sector reported that their current inventory level is more than average inventory level for April-June 2020-21. All the respondents reported that their current inventory level is more than the average inventory level for July-September 2020-21.

⇒ According to the paper industry, post relaxation of lockdown restrictions, around 63% of the operations are taking place in the factories.

⇒ None of the respondents are planning to hire workforce in next 3 months.

⇒ Sector is reportedly getting credit at an average rate of 8%.

⇒ All of the paper sector respondents have reported to have enough funds available for investment and expansion purpose.

⇒ Sector respondents believe that overall manufacturing sector would revive in next six or more months. The industry has suggested the following steps to revive the growth of manufacturing sector:

  ⇒ Along with the MSME sector, larger industry also needs immediate support to survive through this crisis

  ⇒ Development of adequate infrastructure to facilitate growth of manufacturing sector

- Low domestic demand and export issues are significant constraint for the sector which are restricting its growth. Other constraint being faced by the sector is supply chain disruptions.

Textiles

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate	Bleak	Average inventory	Bleak	Bleak

⇒ 69% of the respondents in textiles sector are expecting the production growth to be lower in the July- September 2020 quarter vis-à-vis the same quarter a year ago.

⇒ Current capacity utilization stands at 67% which is less than that of last year for 88% of the respondents. 75% of the respondents are not planning to add capacity in near future.

⇒ On the exports front, 56% of the respondents expect their exports to be lesser in Q2 2020-21 over Q-2 2020-21.

⇒ 82% of the respondents reported a rise in the cost of production. This has been attributed to fall in the selling prices of products, depreciation of Indian currency making imports costlier, strong under-utilization of production capacities, subdued sales, order cancellations, increased costs due to lockdown, high man power costs, raw material prices and power costs.

⇒ 56% of the respondents were maintaining more than average inventory levels in April-June 2020-21 and 37.5% of the respondents expect average inventory levels in the quarter July-September 2020-21.

⇒ Post relaxations in lockdown conditions, only 68% of total operations are taking place in textiles factories/facilities.

⇒ Respondents reported that around 74% workforce is engaged in their operations currently as per the current requirements.

⇒ 69% of the respondents are not planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 9% p.a.

⇒ Majority of the respondents indicated that they are not planning to change their raw material/input sourcing strategies.

⇒ The growth rate of manufacturing sector is likely to revive after nine or more months as per 61% of the survey respondents. The industry has suggested the following for reviving growth:

- Interest rates need to be lowered
- Efforts to increase the disposable income at consumer end to stimulate demand
- Exports should be made more competitive by entering into FTA's with Europe, UK, USA
- Generation of new employment and focus on creation of new demand for textile products.
- Immediate steps to be taken by government for revival of economic slowdown due to Corona Virus and other factors
- Steps should be taken to bring migrant workers back to factories
- Faster GST refunds and duty drawback for textile value chain
- Need of government support in Infrastructural upgradation (Rail / Road network from Manufacturer to port / customer) & Reduction of Transactional Costs including Power, Input, Logistics Costs

⇒ Export related issues and low domestic demand and supply chain disruptions are reportedly some of the significant constraints for the sector which are restricting its growth. Limited credit and finance availability, consignments stuck at ports, supply chain disruptions and labor unavailability are other constraints faced by the sector.

Textiles Machinery

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Investments for Expansion**	**Hiring**
Bleak	Bleak	Negative	Bleak

⇒ 67% of the Textiles machinery manufacturers are expecting the production level to reduce in the July-September 2020 quarter vis-à-vis the same quarter a year ago. This trend is reflected in the order books as well.

⇒ Current capacity utilization stands at 50% which is less than that of last year for all the respondents. None of the respondents are planning to add capacity in near future.

⇒ On the exports front, two-third of the respondents expect their exports to be lesser in Q2 2020-21 over Q-2 2019-20.

⇒ All the respondents reported a rise in the cost of production. This has been attributed to Strong under-utilization of production capacities, high man power costs, raw material prices and power costs.

⇒ Post relaxations in lockdown conditions, only 46% of total operations are taking place in factories/facilities.

⇒ Respondents reported that around 62% workforce is engaged in their operations currently as per the current requirements.

⇒ Two-third of the respondents are not planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8% p.a.

⇒ Two-Third of the respondents indicated that they are planning to change their raw material/input sourcing strategies. They further reported that due to rupee depreciation, imports from Europe have become expensive and industries are planning to increase the share of local procurement in India.

⇒ All the respondents expect manufacturing growth to revive in next nine or more months. Following is proposed for revival of growth in the sector:

- Effective Policy measures by the government to the Textile Engineering Industry for relief and rehabilitation effected due to COVID-19.
- Improve domestic demand - release of funds under ATUF Scheme.
- Support to the Textile Industry to invest in new projects.
- Need for continued export promotion incentives such as MEIS and RoDTEP

⇒ Low domestic, export issues and supply chain disruptions caused due to COVID outbreak are significant constraints faced by the sector. Consignments stuck at ports are other constraints faced by the sector.

Miscellaneous

Quarterly Outlook for the Sector at a Glance

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

⇒ All the respondents are expecting lower production levels for July-September 2020-21 quarter as compared to the same quarter last year. Similar trend is visible in the order books of respondents.

⇒ Average capacity utilization in the sector stood at 57%.

⇒ None of the respondents in the sector are planning to add capacity in next six months.

⇒ Two-third of the respondents are expecting exports to be lesser in Q-2 2020-21 vis-à-vis the same quarter last year.

⇒ Cost of production increased during the quarter for half of the respondents mainly attributed to the higher raw material prices.

⇒ The respondents in the sector were maintaining more than average inventory levels in April-June 2020 and for quarter July-September 2020-21.

⇒ Post relaxations in lockdown conditions, 46% of the total operations are taking place in factories/facilities.

⇒ Respondents reported that 73% of the total workforce is engaged in their operations currently.

⇒ Half of the respondents are planning to expand their workforce in next three months.

⇒ The respondents reported that they are availing credit at a rate of 9.75% p.a.

⇒ 67% of the respondents expect growth of manufacturing to revive after nine or more months and have suggested the following to boost the growth of manufacturing sector:

- Availability of cheaper credit to MSME units
- Removing export restrictive policies such as port restriction for import of raw materials such as natural rubber

⇒ Firms in this sector are significantly constrained by limited credit and finance availability, lack of domestic demand and supply chain disruptions. Other constraints hampering the growth of the sector as identified by the respondents include unavailability of raw materials and components.