FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

October 2019

Manufacturing Division

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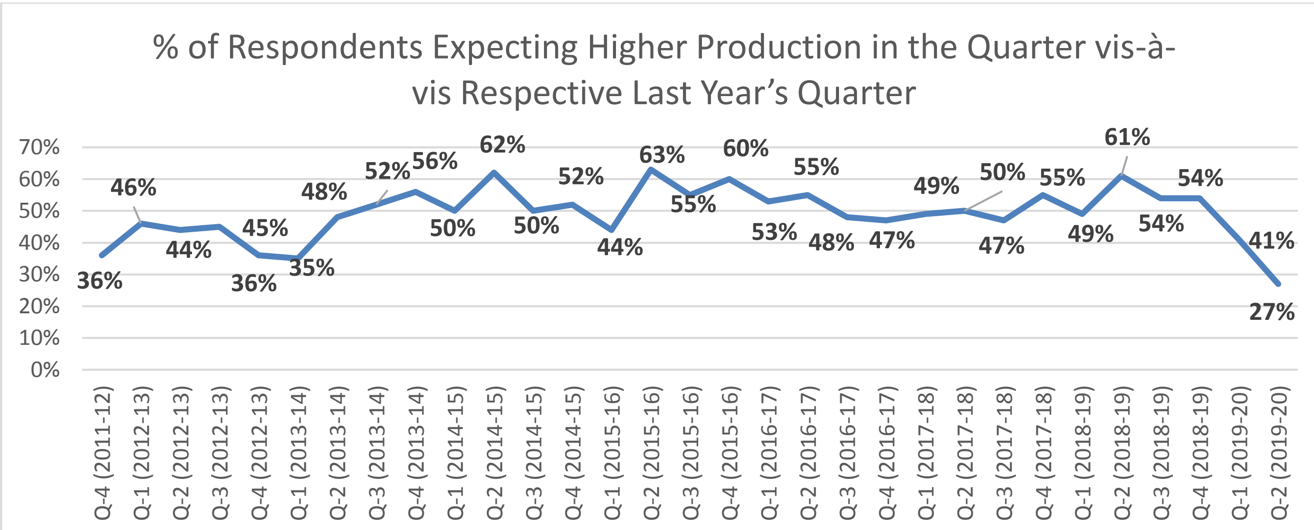
Introduction & Quarterly Assessment for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the sentiments of manufacturers for Q-2 (July-September 2019-20) for fourteen 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, toys, tyre and miscellaneous. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over 3.5 lakh crore.

- FICCI's latest quarterly survey on Manufacturing portrays a depressed outlook for the manufacturing sector in Q-2 (July-September 2019-20) as the percentage of respondents reporting higher production in second quarter has fallen vis-à-vis the Q-1 of 2019-20. The proportion of respondents reporting higher output during July-September 2019 has fallen significantly to 27% as compared to Q-1 of 2019-20 (41%). The percentage of respondents expecting low or same production is 73% in Q-2 2019-20 which was 59% in Q-1 of 2019-20. The sentiments are also the lowest for the last many quarters.
- This depressed outlook is also reflective in order books as 29% of the respondents in July-September 2019 are expecting higher number of orders as against 36% in April-June 2019.

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>

- The overall capacity utilization in manufacturing has witnessed a fall to 74% in Q-2 2019-20 as compared to 78% in the previous quarter.
- The future investment outlook is also subdued than that was perceived in Q-2 of 2018-19 and also vis-à-vis Q-1 2019-20. 24% respondents reported plans for capacity additions for the next six months as compared to 37% in Q-1 of 2019-20.
- High raw material prices, high cost of finance, uncertainty of demand, shortage of skilled labor, high imports, requirement of technology upgradation, low domestic and global demand, excess capacities, high power tariff, tariff preferences in countries like Bangladesh, Vietnam and Pakistan (duty free access) to major markets thus resulting in erosion of competitiveness of Indian exporters are some of the major constraints which are affecting expansion plans of the respondents.
- In the sectors covered in the survey namely Electronics & Electricals, Medical Devices, Metals & Metal Products and Textiles Machinery average capacity utilization has either increased or remained almost same in Q-2 of 2019-20 as compared to Q-1 2019-20.

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

Sector	Average Capacity Utilization in Q-2 2019-20	Average Capacity Utilization in Q-1 2019-20	Average Capacity Utilization in Q-4 2018-19	Average Capacity Utilization in Q-3 2018-19	Average Capacity Utilization in Q-2 2018-19
Automotive	60	80	80	80	73
Capital Goods	72	76	74	74	73
Cement and Ceramics	73	80	80	60	70
Chemicals, Fertilizers & Pharmaceuticals	84	76	77	74	82
Electronics & Electricals	74	67	72	68	69
Leather & Footwear	50	60	60	60	60
Medical Devices	70	70	NA	NA	NA
Metals & Metal Products	78	76	88	74	86
Paper Products	88	95	95	80	88
Textiles	81	84	82	80	83
Textiles Machinery	60	60	60	60	60

Inventories

- 91% of the respondents expect either more or same level of inventory in July-September 2019, which is same as compared to the previous quarter, Q-1 2019-20 and substantially higher than 86% as was the case in Q-4 of 2018-19. This has been largely due to subdued domestic and export demand.

Exports

- The outlook for exports is moderate as only 35% of the participants are expecting a rise in their exports for Q-2 2019-20 and 24% are expecting exports to continue to be on same path as that of same quarter last year.

- However, the bright side is that respondents expecting higher exports in July-September 2019-20 are hopeful of significant increase in exports as compared to the same quarter a year ago.

Hiring

- Hiring outlook for the sector shows a bleak picture as 86% of the respondents mentioned that they are not likely to hire additional workforce in the next three months. This shows a distressing picture of the hiring scenario as compared to the previous quarter Q-1 of 2019-20, where 65% of the respondents were not in favor of hiring additional workforce.

Interest Rate

- Average interest rate paid by the manufacturers has remained almost same at 9.8% p.a. as against 9.9% p.a. during last quarter and the highest rate remains as high as 13%. The recent cuts in repo rate by RBI has not led to a consequential reduction in the lending rate as reported by 70% of the respondents.
- However, liquidity is not an issue according to 88% of the respondents, sufficient funds are available from banks for working capital, investments or expansion.

Sectoral Growth

- Based on expectations in different sectors, it is noted that Chemicals, Fertilizers & Pharmaceuticals is likely to register strong growth in Q-2 2019-20, whereas all the other sectors are likely to have either moderate or low growth.

Table: Growth expectations for Q-2 2019-20 compared with Q-2 2018-19

Sector	Growth Expectation
Chemicals, Fertilizers & Pharmaceuticals	Strong
Cement & Ceramics	Moderate
Miscellaneous	Moderate
Electronics & Electricals	Moderate

Medical Devices & Technologies	Low
Textiles	Low
Textile Machinery	Low
Capital Goods	Low
Tyre	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 72% respondents. This is primarily due to increased cost of raw materials, wages, power cost, rising crude oil prices, low capacity underutilization and high interest rates.

Automotive

Quarterly Outlook for the Sector at a Glance

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

- For Q-2 2019-20, majority of the respondents expect some fall in the production level as compared to the previous year. This is reflected in order books as well, since majority of the respondents stated no change in the number of orders as compared to previous quarter.
- Currently, the sector utilizes 60% of its installed capacity which is less than that of last year for 80% of the respondents. 80% of the respondents are not planning for expansion in next 6 months.
- 60% of the respondents expect same level of exports in July-September quarter vis-à-vis the same quarter last year.
- 80% of 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 include reduction in volume that has resulted in non-recovery of fixed costs, rising cost of energy, manpower cost and fixed overheads.
- On an average, the industry reported to be availing credit at an interest rate of 10.58% p.a. Around 60% of the respondents feel that the reduction in repo rate has not led to a consequential reduction in the lending rate.
- None of the respondents are planning to hire new workforce in the next 3 months.
- Majority of the respondents reported to have maintained more than average inventory levels for the quarter April-June 2019. On the other hand, 60% of the respondents were expecting same or more than average inventories for the quarter July-September 2019-20.
- About 80% of the respondents expect growth of manufacturing to slowdown or remain at same level in near future. The sector has suggested following to accelerate growth:
    - ⇒ Increased spending by the government on infrastructure.

⇒ Customer confidence is at a very low level. Business Confidence is at a low level. There is a trust deficit. All these must be addressed

⇒ Rationalisation and reduction of GST rates.

⇒ Easing financing by the NBFCs and extending the NBFC credit to end customers.

⇒ Provision of investment incentives in the upcoming budget session.

- Low domestic as well as export demand and competition faced from imports are some of the significant constraints faced by the sector. Other constraints faced by the sector are shortage of working capital finance, inverted duty structure, labour related issues, competition faced by imports, and unavailability of skilled labour.

Capital Goods

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive (Low)	Positive	More than average	Bleak	Bleak

- 58% of the respondents expect production to be higher or same in the July-September 2019 quarter vis-à-vis the same quarter a year ago. Though, growth remains subdued.
- On an average, the sector is utilizing about 72% of its capacity which stands at a similar or higher level than that of previous year for half of the respondents. Also, 75% of the participants are not planning to add capacity in next 6 months.
- On the exports front, 73% of the respondents expect their exports to be higher or same in Q-2 2019-20 over Q-2 2018-19.
- 64% of the respondents reported that their exports were lesser in April-June 2019 as compared to the same quarter a year ago.
- 75% of the respondents reported a rise in the cost of production. This has been attributed to high raw material prices, finance cost, manpower and energy cost.
- 55% of the respondents were maintaining higher inventory levels in April-June 2019 whereas around 64% of the respondents expect higher inventory levels in the July-September quarter.
- 75% 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. The industry feels that the reduction in repo rate has not led to a consequential reduction in the lending rate.
- About 42% of the respondents expect slowdown of manufacturing growth in near future. Following is proposed for revival of growth in the sector:
  - ⇒ Interest rate needs to be lowered along with higher infrastructure spending.

⇒ Government needs to have balanced approach in generation capacity and plan thermal plants to meet base loads and reliability criteria for industrial demand

⇒ Increase the availability of finance

- High prices of raw materials, low domestic and export demand and competition faced from imports are reportedly some of the significant constraints for the sector which are restricting its growth. Other constraints include labor related issues and unavailability of skilled labor.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

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

- Half of the respondents are expecting the same level of production in Q-2 2019-20 vis-à-vis the same quarter last year which is reflected in the order books as well.
- Average capacity utilization in the sector stood at 73% which is lesser than that of last year for two-third of the respondents. Majority of the respondents are planning not to add capacity in next few months.
- On the exports front, majority of the respondents expect their exports to be same in Q-2 2019-20 over Q-2 2018-19.
- 67% of respondents reported their cost of production as a percentage of their sales increased vis-à-vis last year due to increased prices of raw materials, power cost and wage inflation.
- Around two-third of the respondents were reportedly maintaining average inventory levels during April-June 2019 and the remaining were maintaining higher inventory levels. Also, majority of the respondents expect higher inventories than average for July-September quarter.
- None of the respondents are planning to hire new work force in the next three months.
- The sector is availing credit at an average rate of around 8% p.a.
- One-third of the respondents are of the view that growth of manufacturing sector is likely to remain same in next six months. Major recommendations for the sector are to increase spending on public infrastructure and government-aided housing projects, reducing lending rates, simplify GST and expedite clearances.
- Some of the constraints significantly hampering growth of the sector include high prices of raw materials, inverted duty structure, low domestic and export demand.

Chemicals, Fertilizers & Pharmaceuticals

Quarterly Outlook for the Sector at a Glance

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

- 67% of the respondents are expecting either high or same production in Q-2 2019-20 vis-à-vis the same quarter last year. All the respondents reported same or more orders in the July-September quarter.
- Average capacity utilization stood at 84% for this sector and is higher for 33% of the respondents as compared to last year. Also, half of the respondents are planning to add capacity in next 6 months.
- Half of the respondents are expecting higher exports in July-September 2019 as compared to last year approximately by 10%.
- 50% of the respondents reported an increase in the cost of production vis-à-vis last year. The cost of production increased due to increased price of raw materials and higher labor cost.
- Two-third of the respondents maintained their average inventory levels in April-June 2019-20. On the other hand, half of the respondents were expecting to maintain average inventory level for July-September quarter.
- 50% of the surveyed firms are planning to add workforce in near future.
- Manufacturers in the sector are reportedly availing credit at an average rate of around 8.8% p.a. Also, two-third of the respondents feel that reduction in repo rate has not led to a consequential reduction in the lending rate.
- Half of the respondents expect manufacturing growth to slowdown in coming months. Following measures are suggested by respondents for early revival of growth:
  - ⇒ Need to encourage exports by providing appropriate incentives
  - ⇒ Facilitate infrastructure like natural gas pipeline to scale up production

- Unavailability and high prices of raw materials are the most significant constraints to the growth of the sector. Other constraints being inverted duty structure and unavailability of skilled labor.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

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

- For Q-2 2019-20, 60% of the respondents expect production to decrease or remain same as compared to same quarter last year. Similar percentage of respondents reported same or lower level of orders for Q-2 2019-20 vis-à-vis the previous quarter.
- The sector is utilizing about 74% of its installed capacity. 60% of the reported firms are utilizing same installed capacity as compared to that of last year and 80% of respondents in this sector reported no capacity additions in next six months.
- 80% of the respondents expect the exports to increase or remain same in Q2 2019-20 as compared to the same quarter last year.
- Cost of production as a percentage of sales remained same for 60% of the respondents.
- 40% of the respondents were reportedly maintaining more than average level of inventories in April-June quarter and an equal number of respondents were expecting same level of inventories in July-September quarter.
- Majority 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 10.25% p.a. Also, the sector reported that reduction in repo rate has been passed on to the borrowers and they have sufficient working capital available for investment and expansion.
- 60% of the respondents expect the sector to remain at same level in next six months. Following was suggested to boost growth of manufacturing:
  - ⇒ Get banks/NBFCs to start giving loans.
  - ⇒ Government should spend on building infrastructural capacity.

⇒ Improve the sentiment to boost spending in the economy.

⇒ Reduce interest rates and ease the loan sanction process also.

⇒ To bring electricity duty under GST.

- Low domestic and export demand are significantly affecting growth of this sector. Other constraints include labour-related issues and high prices of raw materials and components.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Negative	Same	Average level	Bleak	Bleak

- Leather manufacturers are expecting the production level to reduce during the July-September quarter as compared to the previous quarter. This 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.
- The sector saw no change in the exports during Q-1 2019-20 vis-à-vis the same quarter last year. The respondents in the sector are expecting same level of exports during July-September 2019 as compared to the year ago quarter.
- Cost of production increased during the quarter owing to increase in labour cost.
- The respondents in leather and footwear sector were maintaining same average inventory levels in April-June 2019-20 and were expecting the inventory levels to remain same in July-September 2020.
- None of the participants are planning to expand their workforce in next three months.
- The sector is availing credit at a rate of around 11.25 % p.a. The respondents feel that reduction in repo rate has not led to a consequential reduction in the lending rate.
- Respondents expect growth of manufacturing to slow down in next six months and they expect more government spending on infrastructure and higher export incentives for revival of growth.
- Firms in leather and footwear sector are significantly constrained by low domestic as well as export demand, high prices of raw materials, inverted duty structure and availability of skilled labour.

Medical Devices

Quarterly Outlook for the Sector at a Glance

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

- Half of the respondents are expecting moderate growth only for July-September 2019 quarter as compared to the same quarter last year. On the other hand, half of the sector respondents expect their orders to be higher for July-September 2019 as compared to the previous quarter.
- Average capacity utilization in the sector stood at 70%.
- Half of the respondents are expecting exports to fall in Q-2 2019-20 vis-à-vis the same quarter last year.
- Cost of production remained same during the quarter for respondents.
- The respondents in the sector were maintaining average inventory levels in April-June 2019-20 and are expecting same inventory levels in July-September 2019.
- 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 around 11.5% p.a.
- Respondents expect growth of manufacturing to accelerate in next six months. The sector has suggested following to accelerate growth:
    - ⇒ Reduce the dependency on components from other countries.
    - ⇒ Set up more government-aided R&D labs for consultancy in Electromagnetic interference/ Electromagnetic packaging and compatibility (EMI/EMC) for industry stakeholders.
    - ⇒ Subsidize costs of testing which is very high now, especially for small players.
    - ⇒ Need to reduce timeline & cost for obtaining new manufacturing license

- Firms producing medical devices are significantly constrained by the inadequacy of components, regular power supply and competition faced from imports. Other constraints faced are unavailability of skilled labor and high prices of raw material.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

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

- Production of metal and metal products is expected to be moderate in Q-2 2019-20 as 44% of the respondents expect production to be higher or same when compared to the corresponding period of last year. 56% of the respondents reported higher or same orders compared to previous quarter.
- The sector is reportedly operating at an average capacity utilization of 78% which is same or more than last year for 62% respondents. Also, 62% of the respondents reported that they have no plans to increase their capacity in next 6 months.
- As for exports, 67% of the respondents expect exports to rise or remain same for the July-September quarter (y-o-y basis), but export outlook is moderate only.
- Cost of production increased for 75% respondents, due to increase in prices of major raw materials, electricity tariff, manpower cost and interest rates.
- As for the inventory level, 63% of the respondents were maintaining average inventory levels in July-September whereas in April-June, 75% of the respondents were maintaining same as their average inventory levels.
- 88% 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 10.6% p.a. Also, 86% of the respondents reported that reduction in repo rate also led to a consequential reduction in the lending rate.
- 38% 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:
    - ⇒ Effective industrial policy for propelling growth

⇒ Easy availability of raw material especially coal and iron ore

⇒ Increase the pace of infrastructure development

⇒ Interest rates need to be lowered

⇒ Reduction of fuel prices for reducing logistic costs

⇒ Higher incentivization of exports for value added products like Ferro Chrome

⇒ Need to check influx of cheap imports

- Most of the respondents felt that high price of raw materials, low domestic demand, competition faced from imports along with unavailability of skilled labor are the most significant constraints for the industry's growth. Some of the other constraints include deficiency of raw material & components, labor related issues and lack of export demand.

Paper Products

Quarterly Outlook for the sector at a glance

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

- For Q-2 2019-20, all the participants expect their production to be more than that of same quarter last year. However, all the respondents reported lesser number of orders as compared to the previous quarter.
- The average capacity utilization of the sector is hovering around 88% with all the respondents operating at lesser capacity than that of last year. Half of respondents plan to expand capacity in next six months.
- On an annual basis, half of the surveyed firms are expecting exports to remain same in Q-2 2019-20. Exports of all the firms in April-June 2019-20 have been more when compared to the same quarter previous year.
- Cost of production as a percentage of sales for their product increased for all the paper sector respondents due to increased raw material prices and manpower cost.
- All the respondents in the sector reported that their current inventory level is more than the average inventory level for April-June. A similar response was obtained for the quarter July-September.
- None of the respondents are planning to hire workforce in next 3 months.
- Sector is reportedly getting credit at an average rate of 8.7%.
- The paper sector respondents have reported to have enough funds available for investment and expansion purpose.
- Half of the respondents believe that overall manufacturing sector would remain at the same level. The industry has suggested to increase export incentives offered by the government. It was also suggested to review FTA agreements which are hurting the domestic industry along with restricting cheaper imports of goods for revival of growth.

- Low domestic demand and competition faced from imports are significant constraint for the sector which are restricting its growth. While deficiency of raw materials along with their higher prices and lack of export demand are other constraints faced by the sector.

Textiles

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive	Positive	More than Average inventory	Subdued	Bleak

- For July-September 2019, 65% of the participants expect their production level to be higher or same as compared to the same quarter last year. This is reflected in order books also as 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 81% with 43% of the respondents operating at lesser capacity as that of last year. There are no plans for capacity expansion by 83% of the respondents.
- On y-o-y basis, 55% of respondents expect exports to rise or remain same in Q-2 of 2019-20. However, 64% of the respondents reported that their exports for April-June 2019-20 were less as compared to same quarter last year.
- 77% of the respondents reported an increase in the cost of production due to high prices of raw material, wage cost, higher interest rates and increased costs due to technology upgradation.
- Industry’s respondents are availing credit at an average rate of 10.4%.
- 87% of the surveyed firms believe that reduction in repo rate did not lead to a consequential reduction in the lending rate. However, according to 82% of the respondents, sufficient working capital is available from banks.
- 70% of the respondents in the sector have reported that their inventory level was more than their average inventory level in April-June quarter. During July-September 45% of the respondents are expecting higher inventory than their average inventory level.
- 87% of the surveyed firms are not planning to hire new workforce in near future.

- The sectoral growth rate is likely to remain same in next six months as per 43% of the survey respondents. The industry has suggested the following for reviving growth:
  - ⇒ Interest rates need to be lowered
  - ⇒ Need to revive purchasing power of the economy
  - ⇒ Need to expedite returns Refund of Central and State Levies Scheme
  - ⇒ Need to reduce electricity rates with Open Access
  - ⇒ Need for duty free access to main importing countries like USA & Europe to provide a boost to the apparel exports of the country
  - ⇒ Revival of banking system to reduce NPA thereby ensuring easy flow of funds for the industry
  - ⇒ Need to extend ROSCTL scheme to spinning, weaving & processing sectors as well
  - ⇒ Reduction in rates and simplification of GST for textile value chain
  - ⇒ Need of government support in technological upgradation such as developing well connected rail/road network from manufacturer to port/customer
- High prices of raw materials, low domestic demand and lack of export demand are reportedly some of the significant constraints for the sector which are restricting its growth. Competition faced from imports, inverted duty structure, availability of skilled labor and steep power cost are other constraints faced by the sector.

Textiles Machinery

Quarterly Outlook for the Sector at a Glance

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

- Textile machinery manufacturers expect their output to be lower in July-September 2019 vis-à-vis the year ago quarter by 34%.
- The average capacity utilization of the sector is hovering around 60% with respondents operating at either less or same capacity as 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-2 2019-20 by 26% as compared to last year.
- Cost of production increased for the sector overall due to high manpower, raw material prices and under-absorption of fixed costs (due to very low level of orders and sales).
- Industry's respondents are availing credit at an average rate of 9.25%.
- Also, all the respondents reported enough working capital available from their sourcing banks.
- 67% of respondents in the sector have reported that their current inventory level was same or less than their average inventory level in previous quarter whereas for July-September, nearly all the respondents reported to have maintained same as their average inventory levels. There are no plans to hire new workforce.
- Two-Third of respondents in the sector expect manufacturing to remain at same level 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 be restricted on duty free basis.

- ⇒ Need to resolve inverted GST tax structure
- ⇒ Need to reduce taxes to stimulate growth
- ⇒ 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.

- Low domestic and export demand are significant constraints faced by the sector. Inverted duty structure along with competition faced from imports are other constraints faced by the sector.

Toy

Quarterly Outlook for the Sector at a Glance

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

- Production of metal and metal products is expected to be lower in Q-2 2019-20 as reported by 50% of the respondents, when compared to the corresponding period of last year. All the respondents reported lesser orders compared to previous quarter.
- The sector is reportedly operating at an average capacity utilization of 70% which is same or less than last year for all the respondents. Also, half of the respondents reported that they are planning to increase their capacity in next 6 months.
- As for exports, all the respondents expect exports to rise for the July-September quarter (y-o-y basis).
- Cost of production increased for all respondents, due to increase in prices of major raw materials, electricity tariff, manpower cost and interest rates.
- As for the inventory level, all the respondents were maintaining more than average inventory levels in April-June 2019-20. A similar response was recorded for the quarter July-September as well due to lower domestic demand.
- Majority of the respondents have reported that they are 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 10.6% p.a. All the respondents of the sector believe that reduction in repo rate has not been passed on to borrowers.
- All the respondents felt that growth rate of the manufacturing sector will remain at the same level in coming months. Industry suggested the following for acceleration of sector's growth:

  ⇒ Increase the pace of infrastructure development

- ⇒ Interest rates need to be further lowered especially for MSMEs
- ⇒ Need to encourage industry to adopt standards & make quality products
- ⇒ Minimum procurement norms for large stores from Indian manufacturers
- ⇒ Need to check influx of substandard imports

- Most of the respondents felt that low domestic demand and competition faced from imports are the most significant constraints for the industry's growth. Other constraints restricting the growth of the sector include high price of raw materials, labor related issues and inverted duty structure.

Tyre

Quarterly Outlook for the Sector at a Glance

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

- All the respondents are expecting a fall in production for July-September 2019 quarter as compared to the same quarter last year. This is reflected in their order books as well.
- Average capacity utilization in the sector stood at 60%. None of the respondents are planning to add capacity in the next few months.
- The sector is expecting the exports to fall considerably in Q-2 2019-20 vis-à-vis the same quarter last year.
- Cost of production for half of the respondents remained same during the quarter.
- Half of respondents in the sector were maintaining average inventory levels in April-June 2019 and are expecting same inventory levels in July-September 2019-20.
- 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 around 11% p.a and believe that the reduction in repo rate also led to a consequential reduction in the lending rate.
- Half of the respondents expect growth of manufacturing to revive in next six months. The sector has suggested following to accelerate growth:
  - ⇒ Need to simplify labor laws
  - ⇒ Need to incentivize exports
  - ⇒ Improve ease of doing business
- Firms in the tyre sector are significantly constrained by lack of domestic and export demand and competition faced from imports. Other constraints faced are prices of raw material & components, labor related issues and complex procedures to obtain license from government.

Miscellaneous

Quarterly Outlook for the Sector at a Glance

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

- All of the miscellaneous sector respondents reported higher number of orders during Q-2 2019-20 compared to the previous quarter.
- The sector is utilizing 80% of its installed capacity. None of the respondents are planning to add capacity in next few months.
- All of the respondents expect exports to be lesser in July-September 2019-20 as compared to the same quarter last year.
- All of the respondents reported that their exports for April-June 2019-20 were less as compared to same quarter last year.
- For all respondents, cost of production has increased as a percentage of their sales largely due to high raw material prices.
- All of the respondents were maintaining higher than their average inventory levels during July-September, a similar trend was seen for the quarter April-June.
- Miscellaneous sector largely expects slowdown in the growth of the manufacturing sector in coming months. Some of the suggestions for reviving growth include:
  - ⇒ Need to bridge the technology gap
  - ⇒ Protect industry from dumping of substandard products
- Sector is apprehensive about increased prices of raw materials and deficiency of raw materials, lack of domestic and export demand and competition faced from imports. Other constraints faced by the sector are labor related issues, shortage of working capital finance and high rates of GST.