FICCI SURVEY: SLIGHT UPTURN IN MANUFACTURING IN QUARTER II 2013-14

11% Increase in Input Cost Due to Costly Imports Because of Rupee Depreciation : FICCI Survey

Manufacturers Constrained to Leverage Rupee Depreciation for Exports : FICCI Survey

New Delhi, 3 August 2013: FICCI's latest Quarterly Survey on Manufacturing for second quarter of 2013-14, indicated a slight upturn in manufacturing activity. Recent initiatives of the government to remove supply bottlenecks by clearing some of the large projects are perhaps reflected in the higher growth expectation for manufacturing sector in quarter two of 2013-14, noted the survey.

The proportion of respondents reporting higher levels of production in second quarter of 2013-14 has improved to 47% as compared to over 35% in previous quarter. Similarly, proportion of respondents expecting any fall in their production level in second quarter has also fallen to 16% as compared to 26% in previous quarter. Upturn in industrial sector is particularly evident in sectors like leather, textiles, cement and chemicals. At the same time, sectors like automotive, capital goods, textiles machinery, paper and food are expected to witness sluggish growth in the current quarter.

Quarter	% of Respondents Expecting Higher Production in the Respective Quarter vis-à-vis last year
Q-2 (2013-14)	**47%**
Q-1 (2013-14)	**35%**
Q-4 (2012-13)	36%
Q-3 (2012-13)	45%
Q-2 (2012-13)	44%
Q-1 (2012-13)	46%
Q-4 (2011-12)	36%

Source : FICCI Survey

FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-2 (July-September 2013-14) for twelve major sectors textiles, capital goods, textiles machinery, metals, chemicals, cement, electronics, automotive, leather & footwear, machine tools, Food and Paper. Responses have been drawn from 276 manufacturing units from both large and SME segments with a combined turnover of around Rs 2,38,000 crore.

The demand conditions however remain subdued as only 32% respondents reported higher order books for July-September 2013 vis-à-vis previous quarter. In previous three quarters (Q-1 2013-14; Q-4 2012-13 and Q-3 2012-13) only 31 to 39% respondents reported higher order books.

<u>Capacity Addition & Utilization</u>

In terms of investment, it remains subdued in manufacturing sector as was the case for previous quarter with 74% respondents not having any plans for capacity addition for next six months. Sector wise, on the one hand we have sectors like chemicals, textiles, leather & footwear where capacity utilization has either improved or almost remained same over the last few months, on the other hand we have sectors like metals, food products and automotive where the average capacity utilization has fallen over the previous quarter.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%) in Q-4 2012-13	Average Capacity Utilisation (%) in Q-1 2013-14
Auto	**73**	**72**
Capital Goods	**68**	**70**
Cement	**77**	**75**
Chemicals	**74.5**	**77**
Textiles	**81**	**80**
Electronics & Electricals	**58**	**56**
Food Products	**80**	**75**
Leather & Footwear	**73**	**82**
Metals	**66**	**63**

The current average capacity utilization as reported in the survey is around 75% for manufacturing which is almost equal to that reported in previous quarter.

Exports

Slight improvement in export outlook is possible due to some revival of demand in US and Japan and also due to impact of rupee depreciation, but exporters are not able to leverage this opportunity due to following reasons:

- High import content compensates for any gain from rupee depreciation
- Exchange rate is hedged in forward markets
- Inadequate orders in major markets like EU

In Q-1 2013-14 around 36% respondents were expecting better export outlook and in Q-2 of 2013-14 also similar proportion of respondents expect better export outlook. However, it seems that growth in exports has bottomed out and exports may not fall further as proportion of respondents expecting reduction in exports has fallen from 32% in Q-1 to 22% in Q-2.

Rupee Depreciation & Imports

An overwhelming 85% of respondents reported that rupee depreciation has impacted their raw material input cost. On an average, rupee depreciation has increased input cost by 11% for the manufacturers.

Credit Rate

Credit rate paid by the manufacturers ranges from 8 to 16% as per the survey with 42% respondents getting credit at over 12%.

Hiring

Over 75% of the respondents are not likely to hire new workforce in next three months. This proportion has increased as compared to previous survey in which around 70% respondents did not expect to hire new workforce in coming months. This is also reflected by way of lack of expansion plans of manufacturers as explained above. In addition, availability of skilled labour was a significant challenge for the manufacturers with 65% respondents finding it difficult to get right skilled people.

Power Scenario

Around 49% respondents view deficiency of power as a major or moderate constraint for the growth of manufacturing. Further, 37% respondents were dependent on captive power for their manufacturing units. The cost of captive power for the manufacturers ranges from Rs 3 per unit to Rs 20 per unit. High cost of captive power is due to high cost of fuel required for running the gensets.

Sectoral Growth

Based on expectations in different sectors, the Survey pointed out that five out of twelve sectors were likely to witness low growth (less than 5%) as compared to seven sectors in the previous survey. Only three sectors namely, cement, leather and paper are expected to have a strong growth of over 10% in July-September 2013.

Table : Growth expectations for Q-2 2013-14 compared with Q-2 2012-13

Sector	Growth Expectation
Chemicals	Moderate
Food Products	Low
Electronics & Electricals	Strong
Textiles	Moderate
Capital Goods	Low
Steel & Metals	Low
Automotive	Low
Cement	Strong
Leather & footwear	Strong
Machine Tools	Low
Textiles Machinery	Moderate
Paper	Strong

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5% (Source: FICCI Survey)

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