Reduction in Repo Rates not Adequate to Stimulate Investment in Manufacturing: FICCI Survey

Outlook for Manufacturing in Q-4 Improving

New Delhi, 3 April 2015: FICCI's latest Quarterly Survey on Manufacturing projects a better outlook for the sector in Quarter four of 2014-15 as compared to the previous quarter (Q-3). The outlook for Q-4 of 2014-15, as per the latest survey, is more optimistic than it was in Q-3 of 2014-15 for the manufacturing sector as proportion of respondents expecting higher production vis-à-vis last year has improved to 52% in Q-4 from 50% in Q-3.

However, the survey was slightly cautious also as respondents anticipating negative growth have also increased to 18% in Q4 2014-15 from only 11% in Q-3 2014-15. With eleven out of thirteen sectors expected to show improvement in production the outlook seems to be better than the last quarter, noted the FICCI Survey. Some sectors may experience only a moderate improvement in growth, according to the survey. Though the outlook turned bleak for the sector in the last quarter (Q-3) as evident form the table below, but the latest survey indicates that the perhaps the worst is over for the sector and revival is on the anvil.

Quarter	**% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter**
Q-4 (2014-15)	**52%**
Q-3 (2014-15)	**50%**
Q-2 (2014-15)	**62%**
Q-1 (2014-15)	**50%**
Q-4 (2013-14)	**56%**
Q-3 (2013-14)	**52%**
Q-2 (2013-14)	**48%**
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-4 (January – March 2014-15) for thirteen major sectors namely textiles, capital goods, metals, chemicals, cement and ceramics, electronics, auto components, leather & footwear, machine tools, Food & FMCG, tyre, paper and textiles machinery. Responses have been drawn from 272 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 4 lac crore.

Demand

In terms of order books, 42% respondents in the survey have reported higher order books for January – March 2014-15 (Q-4) which remains same as of the previous quarter (Q-3) indicating no significant change in the demand conditions.

Capacity Addition & Utilization

In terms of investment, it remains subdued in manufacturing sector as was the case for previous quarters also. For Q-

4, 73% respondents as against 74% respondents in Q-3 2014-15 and 71% respondents in Q2 2014-15 reported that they don't have any plans for capacity additions for the next six months. Availability of land, delay in regulatory clearances, poor demand conditions and high cost of borrowing are some of the major constraints which are affecting the expansion plans of the respondents. In many sectors, average capacity utilization has almost remained same in Q-3 of 2014-15 as was in Q-2 of 2014-15. These are sectors like metals, tyre, textile machinery, leather and footwear, electronics and electricals. On the other hand capacity utilization has slightly improved in Q-3 in sectors like auto, capital goods and chemicals.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%) in Q-3 2013-14	Average Capacity Utilisation (%) in Q-4 2013-14	Average Capacity Utilisation (%) in Q-1 2014-15	Average Capacity Utilisation (%) in Q-2 2014-15	Average Capacity Utilisation (%) in Q-3 2014-15
Auto	70	73	74	70	80
Capital Goods	70	70	70	70	80
Cement	65	72	71	80	75
Chemicals & Fertilizers	79	80	72	76	80
Textiles	83	79	81	82	82
Electronics & Electricals	60	75	75	70	70
Food & FMCG	80	78	78	82	80
Leather & Footwear	80	80	70	65	65
Metals	70	70	75	75	75
Textiles Machinery	60	60	60	60	60
Tyre	60	80	80	80	80
Miscellaneous	NA	NA	70	NA	NA

The current average capacity utilization as reported in the survey is around 77% for Q-3 which is almost same as the capacity utilizations of previous two quarters i.e. Q-2 2014-15 and Q-1 2014-15.

Inventories

Inventory levels indicate some improvement vis-à-vis last quarter as currently around 33% respondents reported that they are carrying more than their average inventory levels as compared to 37% respondents in Q3. However, it is still much higher than the proportions in quarters prior to Q3 (20% respondents in Q2, 29% in Q-1 2014-15, 32% in Q-4, 24% in Q-3 of 2013-14). Another 61% are maintaining their average inventory levels (as compared to 49% in previous quarter).

Exports

Export outlook for manufacturing in Q-4 2014-15 has improved slightly from previous two quarters but it remains fragile. The proportion of respondents expecting higher exports in Q-4 2014-15 (January – March) is 45% as compared to 43% in Q-3 2014-15 (October – December) and 40% in Q-2 2014-15 (July – September).

Hiring

Hiring outlook seems pessimistic in coming months as over 80% respondents are not likely to hire additional workforce in next three months. This proportion is more than that of previous quarter (73%) indicating that manufacturing units are not expected to make any significant additions to their existing workforce in the coming months.

Interest Rate

Interest rates or cost of finance continues to be sticky. Interest rate paid by the manufacturers ranges from 9.5 to 14.75% as per the survey with average interest rate at around 12.2% per annum. 58% respondents reported availing credit at over 12% average interest rates. 69% respondents do not foresee any substantial increase in investments by their organization as a result of reduction in repo rates by RBI.

Sectoral Growth

Based on expectations in different sectors, the Survey pointed out that four out of thirteen sectors were likely to witness low growth (less than 5%). Sectors like, machine tools and food are expected to have a strong growth of over 10% in January – March 2014-15 and rest all the sectors likely to witness moderate growth.

Table: Growth expectations for Q-4 2014-15 compared with Q-4 2013-14

Sector	Growth Expectation
Auto Components	Low
Textiles Machinery	Low
Textiles	Low
Electronics & Electricals	Low
Cement and Ceramics	Moderate
Metals & Metal Products	Moderate
Capital Goods	Moderate
Leather & footwear	Moderate
Tyre	Moderate
Chemicals	Moderate
Paper	Moderate
Food Products	Strong
Machine Tools	Strong

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

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