

FICCI QUARTERLY SURVEY ON INDIAN MANUFACTURING SECTOR

**FICCI QUARTERLY SURVEY
ON
INDIAN MANUFACTURING SECTOR**

August 2010



FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

TABLE OF CONTENTS

	<i>Page No.</i>
<i>Indian Manufacturing Sector: Overall Performance & Outlook</i>	<i>1</i>
<i>Electronics and Consumer Durables</i>	<i>5</i>
<i>Cement</i>	<i>5</i>
<i>Metal and Metal Products</i>	<i>6</i>
<i>Capital Goods</i>	<i>7</i>
<i>Textiles & Apparels</i>	<i>8</i>
<i>Tyre Industry</i>	<i>9</i>
<i>Chemicals and Pharmaceutical</i>	<i>10</i>
<i>FMCG (Fast Moving Consumer Goods) and Food Processing</i>	<i>11</i>
<i>Automotive</i>	<i>12</i>
<i>Leather & Footwear</i>	<i>13</i>
<i>Miscellaneous Industry</i>	<i>14</i>

Introduction

The latest quarterly FICCI Survey on Indian Manufacturing sector, based on responses of 342 companies, reveals that the growth of Indian manufacturing sector is likely to moderate in the quarter two (July-September 2010) vis-à-vis the growth witnessed in quarter one (April-June 2010). This in no way suggests that manufacturing sector in India is losing steam as some parameters like exports and employment indicates that despite some moderation in growth, the sector would continue to be in the growth terrain which will be more sustainable as compared to very high growth rates witnessed in the months of December 2009, January 2010, February 2010, March 2010 and April 2010. The survey received responses from sectors like FMCG (Fast Moving Consumer Goods) & Food Processing, Textiles & Apparels, Leather & Footwear, Capital Goods, Metal & Products, Automotive, Tyres, Cement, Chemical & Pharmaceuticals, Electronics & Consumer Durables, Textile Machinery, Alloy Steel and Miscellaneous.

Growth Outlook

Overall the growth outlook for Indian manufacturing sector remains positive for Q-2 (Quarter-2 of 2010-11) due to number of factors like strong private consumption demand, pick-up in exports despite weakness in global trade etc. However, some moderation in growth is likely in Indian manufacturing sector in Q-2 as the Government has partially withdrawn the fiscal stimulus and has also started rolling-out its monetary tightening measures which can affect industrial growth. Of course, some statistical effect would always be reflected in growth due to lower bases in Q-1 of 2009 and higher base of Q-2 in 2009. While sectors like Automotive, Electronics & Consumer Durables, Leather and Tyres are expected to witness a strong growth (>12%) in Q-2 but sectors like textiles, chemicals & pharmaceutical, cement, metals and food & FMCG could see some moderation in growth. Also, an important point to be noted is that while in Q-1, 67% respondents expected their production to be higher but in Q-2 only 63% respondents are expecting higher production levels vis-à-vis last year.

Table: Growth Prospects in Manufacturing

Sector	Growth For April-June 2010 vis-à-vis 2009	Growth for July-September 2010 vis-à-vis 2009
Metal & Metal Products	Moderate	Moderate
Automotive	Strong	Strong
Tyres	Moderate	Strong
Electronics & Consumer Durables	Strong	Strong
Capital Goods	Strong	Moderate
Cement	Moderate	Moderate
Textiles	Moderate	Moderate
Leather & Footwear	Moderate	Strong
FMCG & Food Processing	Strong	Moderate
Chemicals & Pharmaceuticals	Moderate	Moderate
Miscellaneous	Strong	Strong

Note: Strong Growth is >12%

Capacity Utilization & Addition

The current average capacity utilization is not full in any of the manufacturing sector in the survey. While in general the capacity utilization is higher than that of last year but still many sectors are still operating below 80% of their capacity utilization. However, some moderate increase in capacities is foreseen in next six months in almost all the manufacturing sectors, except textiles and metals. Overall only 42% respondents are planning to add capacities in next six months.

Table: Capacity Utilization & Addition

Sector	Average Capacity Utilization (%)	Capacity Addition in Next 6 Months
Metal & Metal Products	70%	Not significant
Automotive	80%	Yes
Tyres	80%	Yes
Electronics & Consumer Durables	72%	Yes
Capital Goods	75%	Yes
Cement	80%	Yes
Textiles	80%	Not significant
Leather & Footwear	72%	Yes
FMCG & Food Processing	76%	Yes
Chemicals & Pharmaceuticals	82%	Yes
Miscellaneous	90%	Yes

Employment Outlook For Manufacturing

The employment outlook in Indian manufacturing sector seems to be improving in Q-2 with a number of sectors like automotive, tyres, consumer durables, electronics, capital goods etc. planning to hire additional workforce in next 3 months.

Table: Employment Prospects in Manufacturing

Sector	Additional Workforce to be hired in next 3 months
Metal & metal products	----
Automotive	Yes
Tyres	Yes
Electronics & Consumer Durables	Yes
Capital Goods	Yes
Cement	Yes
Textiles	----
Leather	Yes
FMCG & Food	Yes
Chemicals & Pharmaceuticals	Yes
Miscellaneous	----

Exports of Manufactured Goods

Despite weakness in demand in some regions, India's exports of manufactured goods seems to be picking-up in Q-2 with 8 out of 11 sectors likely to witness good export growth in Q-2. Over 62% respondents said that their exports are likely to increase or remain same in Q-2 as compared to 54% respondents in Q-1. Sectors which are likely to see improvement in exports are Leather, FMCG & Food, Metal & Products, Automotive, Consumer Durables & Electronics. Export growth is likely to be moderate in sectors like tyres and textiles sector in Q-2.

Constraints for Manufacturing Sector

The most significant constraints faced by Indian manufacturers included hardening of raw materials prices, inadequate availability of raw materials, shortage of skilled labour, uncertainty of economic environment and deficiency of power. Over 78% respondents felt hardening of raw material prices to be affecting their growth prospects. Similarly, 50% respondents felt that availability of skilled labour, uncertainty of economic environment and deficiency of power were significant constraints for the sector.

Table: Constraints For Indian Manufacturing Sector

Factor	Significant/Moderate Constraint	Not a Significant Constraint
Deficiency of Raw Material	✓	
Prices of Raw Material	✓	
Labour Issues	✓	
Shortage of Working Capital Finance		✓
Lack of Domestic Demand		✓
Lack of Export Demand		✓
Competition Faced from Imports		✓
Uncertainty of Economic Environment	✓	
Deficiency of Power	✓	
Availability of skilled labour	✓	

Electronics & Consumer Durables

- Almost all the respondents in the sector have reported higher production during April-June 2010. The average increase in production is reported to be around 34%. Trend is likely to be same for July-September 2010 quarter also. The growth in production is likely to be around 32% in July-September 2010 over July-September 2009.
- Most of respondents expect their orders to rise in July-September 2010 as compared to April-June 2010 indicating an increase in demand.
- On an average, the capacity utilization in this sector stands at around 70-75%. Around 70% of the firms have reported that their capacity utilization is higher than what was prevailing last year. Many firms are planning to increase capacity in next 6 months in the range of 10-25%.
- Electronics producers reported an increase in exports during April-June 2010 compared to same quarter last year. Export growth is likely to continue in the next quarter as well.
- Most of the respondents are planning to hire new workforce in next 3 months.
- Respondents in this sector have not reported any significant problem in acquiring land and getting environmental and forest clearances.
- For electronic industry, high input cost and deficiency of power have been the most significant factors affecting their growth. Other important constraints faced by industry are labour related Issues, insufficient export demand and strong competition faced from Imports

Cement

- Almost all the respondents in the cement sector reported an increase in their production levels during April- June 2010 vis-à-vis last year. On an average, production grew by 7.5% compared to April- June 2009. The growth is likely to continue in the next quarter with production expected to grow by 6-7% in July- September 2010 compared to 2009.
- Around 85% respondents have reported that their order books are likely to see a fall in July-September 2010 compared to the previous quarter.

- Capacity utilization is in the range of 70 to 90% in the cement sector, which is less than that of last year for 95% respondents. Majority of the firms are planning to add capacity in next six months. On an average, capacity addition is likely to be 4-5%.
- Exports of majority of respondents have fallen in April-June 2010 compared to last year. Exports are not likely to see a revival in the quarter July- September also.
- Most of the firms in the cement sector are planning to hire new work force in next three months.
- High prices of raw materials is acting as a significant constraint for the sector. Other issues which are significantly affecting growth of cement sector are lack of domestic demand, deficiency of power and labour related issues etc. Some of the respondents reported facing difficulties in getting adequate raw materials for their production.

Metal and Metal Products

- Metal and alloy sector has seen an increase in the production levels with around 67% respondents reporting higher levels of production for the quarter April-June 2010, as compared to April-June 2009. The average increase in production level is around 11%. Performance of alloy steel producers for April-June 2010 quarter is also encouraging. On an average, alloy steel producers have experienced a growth of 10% in their production levels for the quarter April-June 2010.
- In the next quarter i.e. July-September 2010, around 52% respondents expect higher production levels and around 23% expect same level of production compared to same quarter of 2009. The average increase in the production level is expected to be around 10%. 50% of the respondents expect their orders to increase in the quarter July-September 2010 as compared to April-June 2010.
- Currently, more than 60% respondents are operating at 70% or higher capacity utilization and 85% respondents reported that they are not planning to increase their capacity in next 6 months.

- Almost 78% respondents reported either higher or same level of exports in April-June 2010 vis-a-vis April-June 2009. The growth is likely to continue in the next quarter with almost 72% respondents expecting either higher or same level of exports as compared to July-September 2009.
- Around 76% respondents in the sector are not planning to hire new workforce in next 3 months and the rest are planning to do it in the range of 5-10%.
- Many projects are facing problems in acquiring land because of which projects worth thousands of crores are held up. These issues are mainly faced in states like Maharashtra, Orissa, Chhattisgarh, Gujarat and Tamil Nadu. Some of these companies are also facing problems in getting environmental and forest clearances.
- High prices of raw material has been reported as the most significant constraint for manufacturers in this sector. More than 65% respondents reported it to be the most significant constraint. Other major problems faced by this sector have been identified as shortage of power and deficiency of raw material. Besides, respondents in this sector have also identified few other major constraints like poor road infrastructure, shortages of railways rakes etc which are severely impacting the business viabilities due to very high logistic costs. In exports also factors like high logistic costs, both at port and inland transport cost, shortage of containers/trawlers, shortage of labour at port (JNPT/NHAVA SEVA), delays in custom clearance at ports etc. are affecting the business. Some of the other concern of the industry are:
 - Rising import of billets/blooms and re-rolled products such as angles are affecting the domestic industry.
 - In the domestic market, input costs are rising but product prices are not increasing proportionately, putting pressure on the margins of the industry.

Capital Goods sector

- In this sector, 85% respondents reported an increase in production in the quarter April-June 2010 vis-à-vis April-June 2009. In some cases, the increase in production was as high as 75%.

However, the textile machinery sector experienced a growth of 4% for the April-June 2010 quarter vis-à-vis last year.

- The growth is likely to continue in the next quarter also as around 70% respondents expect higher production levels vis-à-vis July-September 2009. The average increase is expected to be around 15%. Textile machinery sector has also reported that they expect an acceleration in their production for July-September 2010 quarter as compared to last year. They expect the growth to be around 8%. Around 69% respondents reported that their order books are likely to increase in July-September 2010 compared to April-June 2010 Quarter.
- Currently, the capacity utilization in this sector is around 75% and for 60% respondents it is higher than the capacity utilization in previous year. Around 55% respondents have plans to add capacity in next 6 months.
- Around 66% respondents reported their exports to be either higher or at same level in April-June 2010 compared to April-June 2009. However, in the next quarter over 77% respondents expect their exports to either increase or remain sane in the next quarter vis-à-vis last year.
- 58% of the respondents in this sector indicated that they are planning to hire new workforce in the near future.
- Most respondents in this sector have not reported any problems in land acquisition or getting environmental and forest clearances.
- High price of raw material is one of the most significant constraint for the sector which can affect its growth. Some other constraints for the capital goods industry are lack of export demand and competition faced from imports. Textile machinery sector has reported import of second hand machinery as one of their most significant concern.

Textiles & Apparels

- Around 70% respondents in the textiles sector reported higher production levels during April-June 2010 compared to the same quarter last year. On an average, production in April-June has increased by 4% vis-à-vis the same quarter last year. Situation is likely to improve

further in July-September quarter since 81% respondents are expecting either an increase in their production or same production levels compared to last year's quarter. Growth rate is likely to be slightly higher at 5.4% in July-September 2010.

- 75% textile units are expecting same or higher number of orders in July-September compared to April-June 2010.
- Average capacity utilization stands at 80% in the textiles sector with 53% respondents running at a higher capacity than last year. Also, 28% respondents are planning to add capacity in next six months in the range of 5-30%.
- 50% respondents reported that their exports in April-June were higher than last year. Scenario on exports front is likely to improve slightly in the current quarter as 53% respondents are expecting an increase in their exports compared to July-September 2009.
- Most of the respondents are not planning to hire new work force in the next three months and only 28% firms in textiles sector are planning to hire new workforce by 5-30%.
- Majority of textiles units are not facing any significant problem in acquiring land for their new projects or in getting environment or forest clearances.
- Units in the textiles sector are significantly affected by high prices of raw materials/intermediates, deficiency of raw materials and availability of skilled manpower. Other issues faced by textile sector are deficiency of power, labour related issues, shortage of finance, lack of domestic and export demand, competition from imports and uncertainty of economic environment.
- Wide fluctuations in exchange rate and high rates of interest on export credit are also hurting the textile producers.
- It was felt by textiles sector that Government stimulus should be continued to help the sector sustain and achieve higher growth.

Tyre Industry

- Majority of the respondents reported higher production levels for Q-1. On an average, the increase has been reported in the range of 7-10%. For July-September quarter also, most of

the respondents expect higher production levels. Almost all the respondents expect either higher or same number of orders in Q-2, indicating robust demand.

- On an average, the capacity utilization in the tyre industry is in the range of 70-90%. It is higher than April-June 2009 quarter for most of the respondents. Also, majority of respondents are planning to add capacity in next 6 months.
- On exports front, majority of the respondents have experienced an increase for April-June 2010 quarter as compared to same quarter in 2009. Tyre manufacturers expect same level of exports in July-September 2010 as compared to same quarter of 2009.
- The tyre industry is planning to hire workforce in next 3 months.
- Respondents in this sector have not reported any serious problems in acquiring land or getting environmental and forest clearances.
- One of the major & significant constraint for this sector is raw material price, particularly of natural rubber. There is inverted duty structure in the sector where import duty on natural rubber is still 20% whereas import duty on tyres is only 10%. Labour related Issues and Competition faced from Imports are some of the other important concerns of the sector.

Chemicals and Pharmaceutical Sector

- 80% respondents in the chemicals and pharmaceutical sector reported either same or higher production in April-June compared to last year. On an average, production has increased by 5% in April-June 2010 vis-à-vis April-June 2009. Situation on the production front is likely to improve in July-September as 60% respondents are expecting higher production compared to July-September 2009. Rest of the respondents are expecting same production levels as prevailing in July-September 2009.
- Capacity utilization is around 82% in chemicals and pharmaceutical sector. Current capacity utilization is higher than last year for many firms. Also, 50% respondents are planning to add capacity in next six months in the range of 5-20%.

- More than half the respondents are expecting same number of orders in July-September as prevailing in April-June quarter. However, rest of them are foreseeing an increase in the number of orders during July-September vis-à-vis April-June quarter.
- In April-June 2010, 70% respondents reported an increase in exports vis-à-vis last year. For July-September, 80% respondents expect their exports to rise vis-à-vis last year.
- 40% of respondents reported that they are planning to expand their workforce in the near future, with some firms planning to increase it by as much as 15%.
- Units in pharmaceutical & chemicals sector are not facing any major problem in land acquisition or environment and forest clearances.
- Competition faced from imports and high prices of raw materials are significantly impacting the growth of chemical sector. Deficiency of raw materials, labour issues, lack of domestic and export demand, uncertainty of economic environment and shortage of skilled labour are other constraints faced by chemical firms.

FMCG (Fast Moving Consumer Goods) and Food Processing

- 80% respondents in FMCG and food sector reported either same or higher production levels in April-June 2010 compared to the same quarter last year. Production has increased in the range of 10-20%. Rest of the respondents reported fall in production. Production is likely to grow in July-September 2010. On an average, FMCG and food sector is likely to grow by around 9% in July-September compared to the same quarter last year.
- Order books of 60% of FMCG and food firms are likely to witness a positive growth in July-September compared to the April-June quarter.
- Capacity utilization stands at 76% in FMCG and food sector and is higher than last year for most of the firms. Also, 50% firms are planning to increase their capacity in next six months by 15-20%.
- For 67% of the respondents, exports were higher in April-June vis-à-vis the same quarter last year. In July-September 2010, 50% respondents are expecting an increase in exports as

compared to last year. Rest of the respondents are expecting same level of exports as prevailing in July-September 2009.

- 60% of the respondents in FMCG and Food sector are planning to hire new workforce in next three months by as much as 10%.
- One third of the respondents in this sector are facing problems in acquiring land for their new projects. Also, problems are faced by a few firms in getting forest and environment clearances.
- 60% firms in the FMCG and food products sector are having problems in production since raw materials are not adequately available. High prices of raw materials, land availability, deficiency of power, shortage of working capital for day to day operations and uncertainty of economic environment are other significant constraints faced by FMCG and food producers. Though moderately, FMCG and food producers are affected by the following factors also:
 - Labour related issues
 - Lack of domestic demand
 - Lack of export demand
 - Competition from imports
 - Availability of skilled labour
 - Exchange rate fluctuations
 - High rates of interest

Automotive

- In the automotive sector, almost 75% respondents reported an increase in their production levels in April-June 2010 vis-à-vis last year. On an average, production under this category has increased by 21%.
- The situation seems to be improving in the next quarter with almost 88% respondents expecting an increase in their production as compared to last year. Most of the respondents

are expecting an increase or same number of orders in July-September 2010 compared to same quarter of last year.

- More than 85% respondents reported an increase in capacity utilization in April-June 2010 vis-à-vis last year. The average capacity utilization in the industry stands at around 80%. Many of the respondents in the automotive sector are planning to add capacity in the range of 10-30% in next 6 months.
- Majority of the respondents in auto components sector have reported either an increase or same level of exports in April-June 2010 quarter. A similar situation is likely to prevail in the next quarter as well.
- Around 63% respondents are planning to hire new workforce in coming 3 months in the range of 10-20% in the automotive sector.
- Although, most of the respondents in the automotive sector have not reported any problem in acquiring land and getting other clearances but some of them have reported that they are facing problems in acquiring land in Maharashtra.
- Availability of skilled labour and deficiency of raw material and power have been identified as the most important constraints for the automotive industry. Some of the manufacturers have also reported high prices of raw materials, labour issues and shortage of working capital finance as constraints to their growth.

Leather & Footwear

- Over 66% respondents in leather and footwear sector reported that their production was higher in April-June 2010 compared to the same quarter last year. The minimum rise in production reported is 10% and for a few firms it is as high as 60%. Leather sector is likely to see a revival in growth in the current quarter (July-September) as all the respondents are either expecting same or higher production level vis-à-vis July-September 2009. Production is likely to increase in the range of 12-30%.
- Order books of most of the respondents (80%) are likely to remain same or increase in July-September compared to previous quarter.

- The average capacity utilization in this sector is reported to be 72% in April-June 2010. Most of the respondents have reported an increase in their capacity utilization vis-à-vis last year. Around 83% respondents are planning to add capacity in next six months and addition is likely to be in the range of 10-15%.
- During April-June 2010, exports of majority of respondents registered a growth. Scenario is likely to strengthen in July-September as all the respondents are either expecting same or higher exports vis-à-vis same quarter last year.
- 83% firms in leather sector reported that they are planning to hire new workforce in next three months and average increase in workforce is likely to be around 10%.
- Firms in leather & footwear sector are not facing any serious difficulty in procuring land for their operations or in getting environment or forest clearances.
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, deficiency of raw materials and availability of skilled manpower for their operations. Other factors acting as impediments for leather sector are deficiency of power, labour issues, shortage of working capital finance, lack of domestic demand, lack of export demand, competition from imports and uncertainty of economic environment.

Miscellaneous Industry

- Almost 75% respondents under the miscellaneous category have reported that their production levels were higher in April-June 2010 vis-à-vis April-June 2009. The growth is likely to continue in July-September quarter also as most of the respondents are expecting higher production levels compared to July-September 2009.
- Units under the miscellaneous category reported running at around 90% of their capacity which is more than that of last year. Also, most of the respondents in this category are planning to enhance their capacity in next six months.
- More than 75% respondents are expecting higher orders in July-September 2010 compared to April-June quarter.

- In April-June 2010, around 50% respondents reported an increase in their exports vis-à-vis last year. However, in July-September 2010, not many firms are expecting growth in exports as compared to July-September 2009.
- Most of the respondents in Miscellaneous category are not planning to hire new workforce in next three months.
- Respondents in this category have not reported any major difficulty in acquiring land or getting clearances for their new projects.
- High prices of raw materials and lack of domestic demand are significantly affecting the growth rate of this sector.