FICCI QUARTERLY SURVEY
ON
INDIAN MANUFACTURING SECTOR

March 2013

FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

TABLE OF CONTENTS

Introduction & General Outlook for the Manufacturing Sector

Production and Demand

- FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-4 (January-March 2012-13) for major sectors such as textiles, capital goods, metals, chemicals, tyres, cement, electronics, automotive, leather & footwear, machine tools, Food, Ceramics, Textiles Machinery etc. Responses have been drawn from 327 manufacturing units from both large and SME segments.
- FICCI's latest Quarterly Survey on Manufacturing for quarter four of 2012-13, provides mixed signals on the growth of manufacturing. While the number of respondents reporting higher levels of production in quarter four of 2012-13 has dropped to 36% as compared to over 40% in previous few quarters, but at the same time only 20% respondents expect any fall in their production level in quarter four. Also, there is some improvement seen in terms of order books of the manufacturers in current quarter. Some upturn in industrial sector is particularly evident in sectors like leather, textiles, food products and cement. But some major sectors like automotive and capital goods 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-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

- The demand conditions remain subdued but some improvement has been witnessed in Q-4 of 2012-13 as compared to Q-3 of 2012-13. In Q-4, over 39% respondents reported higher order books for January-March 2012-13 as compared to 33% in Q-3 of 2012-13 and 31% in Q-2 2012-13.

- The advance estimates of Government of India for national income see slight improvement in manufacturing sector's growth in Q-4 of 2012-13. Manufacturing is expected to register around 3-4% growth in Q-4 as compared to 2.5% growth in Q-3 and less than 1% growth in Q-2. Some major initiatives taken by the Government in the last few months and coupled with some budget announcements are expected to improve the prospects for manufacturing.

Capacity Addition & Utilization

- In terms of investment, it remains subdued in manufacturing sector with 74% respondents not having plans for capacity additions in next six months. Implying that currently, around 25% respondents reported any plans for capacity additions as compared to around 33% respondents reported plans for capacity addition in the previous survey (Q-3). This clearly indicates that investment will not pick-up at least in near future. Subdued investment sentiments are also reflected in the expected performance of capital goods sector as explained later in this survey report.
- Sector wise, on the one hand we have sectors like textiles where capacity utilization has improved over the last few months, with an average capacity utilization level reported at around 81%, on the other hand we have sectors like electronics, capital goods, metals where the average capacity utilization is less than 70%.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%)
Auto	73
Capital Goods	68
Cement	77
Chemicals	74.5
Textiles	81
Electronics & Electricals	58
Food Products	80
Leather & Footwear	73
Metals	66
Tyres	80

- Also, due to excess capacities manufacturers are looking at optimal utilization of existing capacities rather than any fresh investments. The current average capacity utilization as reported in the survey is around 74% for manufacturing.

Inventories

- Looking at the inventory levels, currently around 30% respondents reported that they are carrying more than their average levels of inventories and another 50% are maintaining their average levels of inventories. Higher than average inventory levels are reported particularly in sectors like automotive, capital goods, metals and textiles machinery. Whereas, sectors like leather, cement and textiles have reported less than their average levels of inventories currently.

Exports

- After reporting some improvement in export scenario in the previous quarter survey, the export outlook for manufacturing seems to have again turned bleak. For the current quarter (Q-4) 40% respondents expect their export levels to be higher than last year for the same quarter. In the previous survey, we had 54% respondents expecting exports to be higher in Q-3 vis-a-vis same quarter last year.

Hiring

- Around 76% 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. Except may be leather, no other sector as reported in the survey has indicated any major hiring plans. This is also reflected by way of lack of expansion plans of manufacturers as explained above.

Sectoral Growth

- Based on expectations in different sectors, the Survey pointed out that seven out of twelve sectors were likely to witness low (less than 5%) growth and three sectors to witness moderate growth (less than 10% and greater than 5%) in Q-4. The sectors which are likely to witness low growth are chemicals, capital goods, automotive, machine tools, metals, electronics and tyres. Only cement is likely to witness strong growth of more than 10% in Q-4.

Table : Growth expectations for Q-4 2012-13 compared with Q-4 2011-12

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

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

Automotive

- In this sector, only half of the respondents reported higher levels of production in October - December 2012 quarter as compared to same quarter of previous year. Rest of the respondents have reported fall in production by close to 5-6%.
- The situation seems to be worsening in the current quarter i.e. January - March 2013 as 83% respondents expect lower or same production levels as compared to January – March 2012.
- More than half the respondents are expecting either lower or same number of orders in the current quarter vis-à-vis October – December 2012 quarter.
- On an average, the automotive industry is operating at a capacity of 75% and majority do not have plans to add further capacity over next six months. Only few are expected to add capacity in near future. Respondents have reported that there is lack of infrastructure is acting as an impediment for their project expansions.
- However, scenario seems to be better on exports front as only 20% respondents reported fall in exports. The rest 80% reported either higher or same level of exports during October 2012 as compared to the same quarter of 2011. In the current quarter also, 70% respondents expect an increase in their exports as compared to January – March 2012.
- Half of the respondents expect to maintain more than their average inventory levels in January – March 2013 quarter.
- 50% respondents do not have plans to hire new workforce. The rest are planning to hire workforce in the range of 10-20%.
- The industry doesn't expect the manufacturing sector to slowdown further as most of them expect the sector to either revive or have same level of growth. The sector has suggested that following issues which needs to be addressed to hasten the revival in industrial growth:
    - ✓ Availability of basic raw materials like steel, aluminium etc at lower prices.
    - ✓ Adequate Power availability
    - ✓ Monetary policy intervention for stimulating domestic demand.
    - ✓ Availability of cheaper finance

- Some of the significant constraints for the sector are hardening of raw material prices, lack of domestic demand and uncertainty of economic environment.

Capital Goods

- 62% respondents have reported that their production has either decreased or remained at the same level for October - December 2012 quarter as compared to October - December 2011. Situation seems to be worsening in the current quarter as 85% respondents expects lower or same production levels.
- Around 54% respondents have reported that their order books are likely to witness a negative growth in January March 2013 as compared to the October – December 2012 quarter, which perhaps would be first time as part of this survey.
- Currently, the capacity utilization in the sector is hovering at 70% and for around 54% respondents the capacity utilization is less than that of previous year. Around 85% respondents reported that they do not have any plans to add capacity in next 6 months. Some of the problem areas mentioned by the industry were:
  - ✓ Power shortages
  - ✓ Substantial increase in competition from imports particularly China and those countries with which have FTAs.
  - ✓ Shortage of working capital and high rate of interest
- For half of the respondents, exports were same in October – December 2012 vis-à-vis the same quarter last year. 30% respondents reported lower level of exports in October - December 2012 quarter and rest of the respondents reported an increase in their exports. Scenario at exports front is not going to be very different in the current quarter also vis-à-vis last year.
- Around 40% respondents expect to maintain more than their average inventory levels. This indicates not just slowdown within the sector but also for other sectors as they depend upon machinery for investments. Another 40% respondents are likely to maintain raw material and finished goods at their average levels.

- More than 90% of the respondents in this sector indicated that they are not planning to hire new workforce.
- Capital Goods sector feel that manufacturing growth rate would remain at the same level as it is today. However, following steps if taken could revive growth:
  - ✓ Faster Implementation of GST
  - ✓ Speedy clearances to projects
  - ✓ Further loosening of monetary policy
  - ✓ Stimulating infrastructure development
  - ✓ Stability in the prices for raw materials and intermediates like (CRGO Steel, cooper etc).
  - ✓ Creating enough test facilities in India
  - ✓ Ensure a level playing field for domestic industry vis-à-vis imports
  - ✓ Encourage technology transfer.
- High price of raw material, uncertainty of economic environment, lack of domestic demand and lack of skilled labour are some of the important constraints for the sector which are affecting its growth.

Electronics & Electricals

- Almost 60% respondents reported lower production in October - December 2012 in comparison to the same quarter of last year.
- In January – March 2013 quarter, sn overwhelming 80% respondents expect either lower or same level of production as compared to January –March 2012. The expected fall in the sector could be in the range of 5-10%.
- 60% respondents expect less number of orders in January - March 2013 in comparison to October - December 2012.
- Capacity utilization is hovering around 60% for electronics industry. For 60% respondents this capacity utilization is less than that of last year. Almost all the respondents have reported that they don't have any plans to add any fresh capacity in next few months.

- Most of the respondents reported lower exports in October - December 2012 as compared to last year. In January – March 2013 also, majority of respondents are expecting either lower or same level of exports vis-à-vis same quarter of last year.
- Almost all the respondents have reported that their expected inventory of raw material and finished goods will be higher or same as their average inventory.
- Majority of the respondents are not planning to hire additional work force in next 3 months.
- Most of the respondents don't foresee any immediate revival in manufacturing sector's growth.
- Hardening of raw material prices, lack of domestic & export demand and uncertainty of economic environment are significantly affecting the growth of this sector. The sector also reported incidence of inverted duty structure especially in computers/laptops which needs to be corrected to encourage domestic manufacturing and value addition.

Machine Tool Industry

- Most of the respondents reported higher levels of production in October – December 2012 quarter as compared to same quarter of previous year. The increase is reported to be as high as 14% as compared to October – December 2011. But, in the current quarter i.e. January – March 2013, respondents are expecting a decline of around 5% as compared to the same quarter of previous year. Respondents have also reported slowdown in level of orders in January – March 2013 compared to October – December 2012.
- Majority of the respondents reported that there has not been much change in their exports for October – December 2012 and January – March 2013 vis-à-vis October – December 2011 and January – March 2012 respectively.
- The industry is expecting to maintain their average inventory levels for January – March 2013.
- Majority of the respondents believe that the growth rate of manufacturing sector is going to revive in coming months. Machine Tool industry has also suggested that Government needs

to introduce incentives to attract investments in the country to revive manufacturing growth.

- Some of the significant constraints for this sector are shortage of working capital finance, deficiency of power, prices of raw material, lack of skilled labour and uncertainty of economic environment.

Metal and Metal Products

- 60% respondents reported lower levels of production in October – December 2012 quarter as compared to same quarter of previous year. The average decline reported is around 5%.
- For January - March 2013 quarter 50% respondents expect same production level as compared to January – March 2012. Around 30% expect lower level of production in current quarter as compared to January – March 2012. Overall, the sector is likely to witness depressed growth.
- Approximately, 67% respondents are expecting either same or lower number of orders in the quarter January - March 2013 compared to the last quarter (i.e. October - December 2012). The rest 32% expect higher number of orders in current quarter.
- Currently, the industry is operating at an average capacity utilization of 70% and for 83% respondents it is lower or same as compared to last year. Around 80% respondents reported that they are not planning to increase their capacity in next 6 months. Some of the problem areas mentioned by the industry were:
  - ✓ Sluggish market demand and overcapacity
  - ✓ Inadequate power supply
  - ✓ Higher interest costs
  - ✓ General economic slow down
  - ✓ Delays in land acquisition, environmental clearances, and problems in iron ore mining sector (ban on iron ore mining in various states)
  - ✓ High cost of freight
  - ✓ Lack of skilled labour

- Scenario is not very encouraging on exports front also. In October - December 2012 quarter 70% respondents have reported either lower or same levels of exports vis-à-vis October - December 2011. In the current quarter, 73 % respondents expect lower or same level of exports as compared to the same quarter last year.
- 44% respondents reported that they expect to maintain average inventory levels for January – March 2013. However, around 30% respondents expect inventory pile up in the current quarter.
- Close to 80% respondents reported that they do not have any plans to hire new workforce in next 3 months. The rest have plans to hire new workforce in the range of 2-6%.
- Close to 78% respondents feel that growth rate will slowdown further or remain same in coming months.
- The following points have been suggested by the industry to revive growth of the sector
    - ✓ Increase government investments in infrastructure
    - ✓ Policy reforms to improve business environment and ensure faster project clearances
    - ✓ Improve power availability
    - ✓ Control inflation
    - ✓ Introduction of incentives for promotion of exports.
    - ✓ Ensure availability of basic inputs like coal, iron ore, Manganese Ore at reasonable price.
    - ✓ Faster land acquisition and environmental clearance process
- Most of the respondents feel high prices of raw materials, lack of domestic demand and uncertainty of economic environment as the most important constraints for the industry. Deficiency of power and availability of skilled manpower are some of the other crucial impediments to the growth of the sector.

Textile Machinery

- Almost all the respondents in textile machinery sector have reported a decrease in production for October - December 2012 quarter vis-à-vis same quarter in 2011. The average decline reported is around 8%.
- But the situation seems to be improving in the current quarter i.e. January - March 2013 quarter as compared to the same quarter of last year. The increase is expected to be around 5-10 %.
- No change is expected in the order books of most of the respondents in January - March 2013 as compared to October - December 2012 quarter.
- The current capacity utilization in the sector is in the range of 50-70% which is same as that of last year for most of the respondents. Also, most of the respondents do not have plans to add capacity in next six months.
- However, scenario is slightly better on export front as majority of the respondents have reported an increase of about 10% for October – December 2012 quarter as compared to same quarter in 2011. In January - March 2013 quarter also the sector expects increase in exports as compared to same quarter in 2012 indicating that the expected decrease in the overall production is primarily attributed to slowdown in domestic demand.
- Most of the respondents expect inventory pile ups in the current quarter as they expect to maintain higher inventory levels than the average level during January – March 2012
- Most of the respondents have reported that they have no plans to hire new workforce in next 3 months.
- Majority of the respondents in this sector believe that growth rate of manufacturing sector is going to remain at the same level for next few months. The industry has urged the Government to take following measures for textile machinery sector:
    - ✓ Provide level playing field vis-à-vis imports
    - ✓ Restrict import of second hand/used machinery
    - ✓ Support for R&D and skill development
    - ✓ Reduce transaction cost

- Some of the major challenges for this sector are increased competition faced from imports and lack of availability of skilled labour.

Textiles

- In January- March 2013, 90% respondents in textiles sector are expecting increased or same production levels. Average production growth is expected to be around 7% during January-March 2013.
- In January- March 2013, 90% of textile respondents are expecting either same or higher number of orders as in October- December 2012 indicating a recovery in demand conditions. This is also reflected to some extent in case of better prospects for textile machinery sector as reported separately in this survey.
- Average capacity utilization is hovering around 85% in textiles sector with almost half of the respondents operating at a capacity utilization of more than that of last year. However, majority of respondents (67%) are not planning to increase their capacity in next 6 months. A few are planning to increase their capacities in the range of 5-50%. Firms in textiles sector are facing following problems in adding capacity:
  - Demand conditions, though improving, but remain sluggish
  - Shortage of Labor
  - Power shortage
  - High cost of capital
  - Uncertainty in market conditions
- Improved prospects seen in exports as compared to previous surveys in textiles. Around 71% respondents reported that their exports in October- December 2012 were either same or higher than the same quarter last year. In January- March 2013 exports are likely to see further growth as 86% respondents are expecting either same or higher exports vis-à-vis last year.

- Two thirds of the respondents in textiles sector have reported that their current inventory level is same as their average inventory level. Whereas rest of the respondents have reported higher inventory.
- 80% of the respondents in textiles sector are not planning to hire new workers in next three months and rest of the respondents are planning to increase workforce by 2-20%.
- Half of the respondents are expecting manufacturing growth to remain at same level and another thirty three percent are hopeful that it would revive in coming months. But following needs to be looked into by Government to enhance growth:
  - Easy availability of finance and at lower interest rates
  - Improved power supply
  - Amend labour laws to make them industry friendly especially for seasonal industry like garments
  - Need to have a strong focus on improving infrastructure & utilities
  - Making use of fire retardant and other technical textiles mandatory in certain applications required for safety, environment or health reasons
  - TUF scheme should also be made applicable for textile synthetic yarn producing machinery
  - Exchange rate stability
  - Improve coal supply to thermal plants
- Units in textiles sector are significantly affected by high prices of raw materials/intermediates, deficiency of power, lack of skilled manpower and uncertainty of economic environment. Other issues faced by textile sector are shortage of finance, labour related issues, low domestic and export demand and competition from imports.

Cement and Ceramics Sector

- 88% respondents reported higher output in the October- December 2012 quarter vis-à-vis last year. Growth is likely to continue in Cement Sector in the January- March quarter as 88% respondents expect same or higher production levels vis-à-vis last year.

- Around 63% respondents have reported that their order books are likely to see an improvement in January- March 2013 compared to previous quarter.
- Capacity utilization is hovering around 77% in cement sector, which is more than that of last year for 88% respondents. Majority of the firms are not planning to add capacity in next six months. Cement producers are constrained by shortage of power and are facing problems in getting various clearances for their projects, both greenfield and brownfield.
- Exports of cement & ceramics have declined in October- December 2012 compared to last year. Exports are not likely to see an improvement in the current quarter also.
- For half of the respondents, their inventory level is same as their average inventory level. However, for the other half, existing inventory level is higher than their average inventory level.
- Most firms in cement & ceramics sector are not planning to hire new work force in next three months and only a few are planning to increase their workforce that too only marginally.
- Most respondents in cement sector (63%) believe that the growth rate of manufacturing is likely to revive in coming months of 2013 whereas another 25% are of the view that growth may remain at same level or further slowdown in coming months. Respondents feel that following steps need to be taken by Government to enhance growth of the sector:
  - Need to ensure continuous power supply
  - More investments in infrastructure sector is required to boost demand for cement and also there is a need to speed up project clearances
  - Interest rates need to be reduced
  - Excise duty and VAT need to be reduced on cement
- High prices of raw materials, deficiency of power, sluggish domestic demand and uncertainty of economic environment are acting as significant constraints for the sector. Some of the respondents reported shortage of working capital finance, deficiency of raw materials, labor related issues and inadequate availability of skilled labor as factors moderately affecting their growth.

Chemicals and Fertilizers

- 73% respondents reported either same or higher output in the October- December 2012 vis-à-vis the same quarter last year. Scenario is likely to improve in January-March 2013 as 91% respondents are expecting same or higher output compared to January-March 2012.
- 82% respondents are expecting either same or higher number of orders in January-March 2013 in comparison to the last quarter (October- December 2012).
- Capacity utilization stands at around 77% for this sector. Currently, the capacity utilization is higher than last year for 45% of the respondents. Majority of the manufacturers are not planning to add capacity in next 6 months. Chemicals and fertilizer producers are facing the following major constraints in capacity addition:
    - Delay in getting environment and pollution clearances
    - Effluent treatment limitations
- Close to 50% of the respondents feel that exports in October- December 2012 will be more in comparison to October- December 2011. Scenario on exports front is not likely to improve in January- March 2013 as only one third of the exporters are expecting growth vis-à-vis the year ago quarter.
- For 73% respondents, the inventory level of raw material and finished goods is the same as their average level. For rest of the respondents, inventory level is lower than their average inventory level.
- Most respondents are not planning to hire additional workforce in next 3 months.
- Close to 73% of the respondents feel that the growth rate of manufacturing sector will continue to remain at same level in coming months. Following measures are required to revive growth:
    - Control on fuel price rise
    - For skill development, industrial training institutes need to be set up in all the areas
    - Interest rate needs to be lowered & liquidity needs to be improved
    - Fast track clearances from various Government authorities
- High prices of raw materials are significantly affecting growth of the sector.

- Shortage of working capital, lower domestic and export demand, competition from imports and uncertain economic environment are amongst the other constraints affecting the growth in this sector.

Leather and Footwear

- Leather and Footwear sector is likely to see a revival in growth in the current quarter (January- March) 2013 as 71% respondents are expecting higher production level vis-à-vis January- March 2012.
- Order books of almost all respondents are likely to remain same or increase in January- March 2013 compared to previous quarter.
- The average capacity utilization in this sector is reported to be 74% in October- December 2012 which is less than that of last year for half of the respondents. Around half of the respondents are planning to add capacity in next six months and addition is likely to be in the range of 12-40%. Leather and footwear producers are facing following constraints in capacity addition:
  - Shortage of working capital finance
  - High fuel cost
  - Low export orders
  - Shortage of power
  - Shortage of skilled manpower
- During October- December 2012, exports of two third of the respondents registered a growth. Scenario is likely to improve in January- March 2013 quarter as majority of the respondents are expecting higher export growth vis-à-vis the same quarter last year.
- Inventory level of 30% of the respondents is more than their average inventory level. However, rest of the respondents reported either same or lower than the average inventory levels.
- Majority of the firms in leather sector reported that they are planning to expand their workforce in next three months. Average increase in workforce is likely to be around 10%.

- Two third respondents in this sector are expecting same level of growth in manufacturing sector in coming months of 2012-13. However, following issues need to be addressed by Government to revive growth:
    - ➢ Easier credit facility with lower interest rates
    - ➢ Stable power supply
    - ➢ Improvement in existing infrastructure
    - ➢ Stabilization of inflation
    - ➢ More incentives like drawback benefits need to be provided with simplification of procedures
- Firms in leather and footwear sector are significantly constrained by high prices of raw materials, labor related issues, uncertainty of economic environment and availability of skilled manpower. Other factors acting as impediments for leather sector are deficiency of power, deficiency of raw materials and shortage of working capital finance.

Food Processing

- Almost all the respondents in food processing sector reported production growth in October- December 2012 compared to the same quarter last year. Production grew on an average by 7%. Production is likely to grow in January- March 2013 quarter also as again all the respondents are expecting higher production vis-à-vis last year.
- Order books of 60% of food processing firms are higher in January- March compared to October- December 2012 quarter.
- Capacity utilization stands at 82% in food processing sector and is higher than last year for most of the firms. Also, 40% firms are planning to increase their capacity in next six months by 25-30%. Respondents in this sector are facing problems in acquiring land for their new projects. Also, problems have been faced by a few firms in getting forest, environment and pollution clearances.
- For half of the respondents, exports were higher in October- December 2012 vis-à-vis the same quarter last year. In January- March 2013, almost all respondents are expecting an increase in exports as compared to last year.

- 60% respondents reported that their current inventory level is higher than their average inventory level, implying low sales. Rest of the respondents reported inventory at average level.
- 80% of the respondents in food processing sector are not planning to hire new workforce in next three months.
- 60% firms in the food processing sector are sanguine about growth prospects in manufacturing sector. But the following issues need to be addressed:
  - Fast track clearances from various Government authorities
  - Easier credit facility with lower interest rates
  - Labor laws reform
- Food Processing firms are having problems in production since prices of raw materials are rising and there is inadequate export demand. Though moderately, food processing are affected by the following factors also:
  - Deficiency of power
  - Labour related issues
  - shortage of working capital
  - Low domestic demand
  - Exchange rate fluctuations

Tyre Industry

- For January-March 2013 quarter, most of the respondents expect growth in production. Production is expected to increase on an average by 2-6%.
- On an average, the capacity utilization in tyre industry is in the range of 70-90%. It is higher than October-December 2012 quarter for most of the respondents. Also, majority of respondents are not planning to add capacity in next 6 months.
- On exports front, majority of the respondents have experienced an increase for October-December 2012 quarter as compared to same quarter in 2011. In January-March 2013

quarter also, tyre manufacturers expect higher level of exports as compared to same quarter of 2012.

- The inventory levels of tyre manufacturers are same as their average inventory levels in January- March 2013.
- The tyre industry is not planning to hire workforce in next 3 months.
- Almost all the respondents in the sector believe that manufacturing growth rate is expected to remain at same level in the coming months and to revive growth, the industry has suggested to improve physical infrastructure like power, roads, ports. Interest rate and excise duty need to be reduced for automotive sector.
- Tyre sector is significantly constrained by deficiency of power, labor related issues, low domestic demand and uncertainty in economic environment. High prices of raw materials, shortage of working capital finance, lower export demand, competition faced from imports and availability of skilled labor are some of the other important challenges for the sector.