FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY
ON
INDIAN MANUFACTURING SECTOR

July 2017

Manufacturing Division

CONTENTS **Page No.**

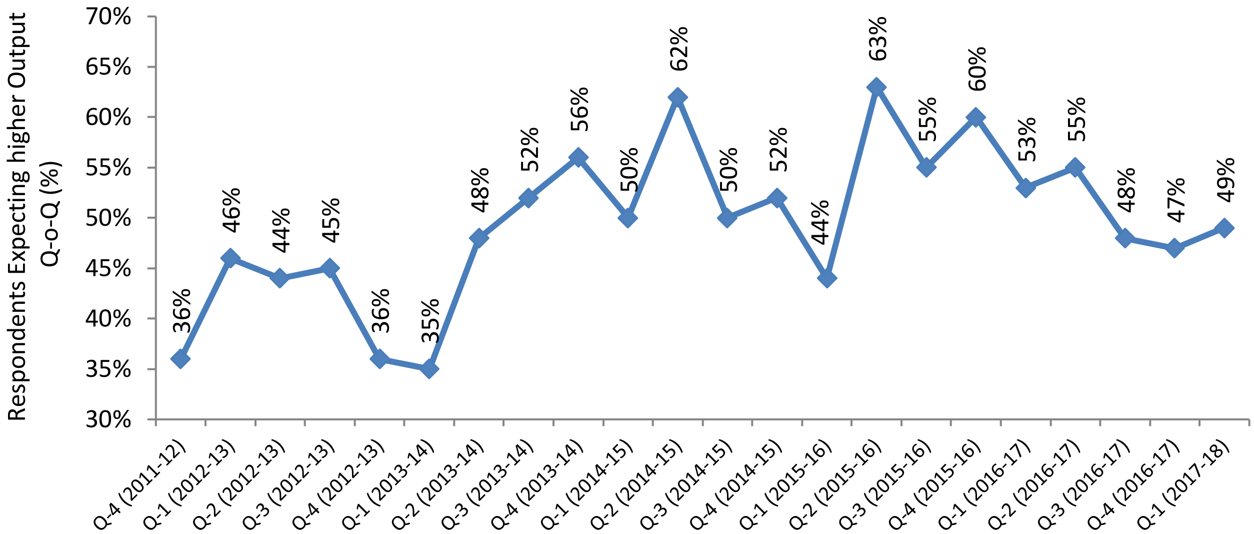
Introduction & Quarterly Outlook for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the expectations of manufacturers for Q-1 (April – June 2017-18) for eleven major sectors namely auto, capital goods, cement and ceramics, chemicals and fertilizers, electronics & electricals, leather and footwear, machine tools, metal and metal products, paper products, textiles and technical textiles, and textiles machinery. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over ₹3.5 lac crore.

- FICCI's latest Quarterly Survey on Manufacturing suggests slight upward movement for the manufacturing sector outlook in the first quarter (April – June 2017-18) of the fiscal as the percentage of respondents reporting higher production in first quarter have increased vis-à-vis previous quarter. Moreover, it is worth noting that the percentage of respondents reporting lower production has reduced considerably over the previous quarter thereby indicating a more positive outlook in months to come.
- The proportion of respondents reporting higher output growth during the April – June 2017-18 quarter has risen slightly from 47% January – March 2016-17 to 49%. Respondents reporting negative growth have come down to 17% in April – June 2017-18 from 27% as reported in the previous quarter.
- However, the slight uptick in the outlook for manufacturing production in first quarter of the current fiscal year is accompanied by rising cost of production (for a little over two-thirds of the respondents).
- In terms of order books, about 47% respondents in April – June 2017-18 quarter reported higher order numbers which is almost the same as that recorded in the previous quarter.

Figure: Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter



Source: FICCI Survey

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-1 (2017-18)	49%
Q-4 (2016-17)	47% (Revised)
Q-3 (2016-17)	48%
Q-2 (2016-17)	55%
Q-1 (2016-17)	53%
Q-4 (2015-16)	60%
Q-3 (2015-16)	55%
Q-2 (2015-16)	63%
Q-1 (2015-16)	44%
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

Capacity Addition & Utilization

- The average capacity utilization as reported in the survey for the manufacturing sector is about 75% for Q-4 2016-17 which is similar to that of Q-3 2016-17.
- The future investment outlook remains less optimistic. Even now, 74% respondents in Q-1 2017-18 as against 75% respondents in Q-4 2016-17 reported that they don't have any plans for capacity additions for the next six months. Although, the bleak investment outlook seems to be waning if Q-3 2016-17 is taken into consideration (when 77% respondents had no plans for capacity addition). High percentage implies slack in the private sector investments in manufacturing is here to continue for some more months. Large volumes of imports, under-utilised capacities and lower domestic demand from industrial sectors and OEMs are some of the major constraints which are affecting the expansion plans of the respondents.
- On a broader perspective, in some sectors (like chemicals, capital goods, textiles machinery, cement, metals and paper) average capacity utilization has either remained same or declined in Q-4 of 2016-17. On the other side, some sectors including auto, textiles and electronics and electricals reported a rise in the average capacity utilisation over the same period.

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

Sector	Average Capacity Utilisation in Q-4 2016-17	Average Capacity Utilisation in Q-3 2016-17	Average Capacity Utilization in Q-2 2016-17	Average Capacity Utilization in Q-1 2016-17
Auto	78	75	80	77
Capital Goods	71	74	70	80
Cement	72	80	80	87.5
Chemicals	76	76	83	83
Textiles	82	79	84	84
Electronics & Electricals	68	58	70	65
Food	NA	60	60	57

Leather & Footwear	55	60	60	60
Metals	76	82	70	70
Textiles Machinery	60	60	60	50
Paper	80	87.5	85	80
Machine Tools	80	NA	80	NA

**NA: Not Available due to lack of data*

Inventories

- As for the Inventory levels, 87% of the participants in Q-4 (January – March 2016-17), as against an overwhelming 97% in Q-3 (October-December 2016), have maintained either more or same levels of inventory as their average inventory levels.

Exports

- Export outlook of manufacturing sector for the first quarter of this fiscal also seems to be marginally improving as percentage of respondents expecting fall in Q-1 (2017-18) has come down from 22.8% in Q-4 (2016-17) to 18.5%.

Hiring

- Hiring outlook for the sector remains subdued in near future as 73% of the sample participants in Q-1 2017-18 said that they are unlikely to hire additional workforce in next three months. However, when compared on a sequential basis, this proportion reflects a mild improvement over the previous quarter when 77% of the respondents were reportedly averse to hire additional workforce.

Interest Rate

- Average interest rate paid by the manufacturers still remain high though have shown some sign of moderation with average rate of 11% but highest rates continue to be upwards of 14.5%.

Sectoral Growth

- Based on expectations in different sectors, the Survey suggests that moderate growth is expected in metals, leather and footwear, machine tools and capital goods sector in Q-1 2017-18. Low growth is expected in sectors like chemicals, automotive, textiles and cement. Only in case of electronics and electricals high growth is expected for Q-1 2017-18.

Table: Growth expectations for Q-1 2017-18 compared with Q-1 2016-17

Sector	Growth Expectation
Cement and Ceramics	Low
Chemicals	Low
Auto	Low
Textiles and Technical Textiles	Low
Electronics & Electricals	Strong
Machine Tools	Moderate
Metals & Metal Products	Moderate
Leather and Footwear	Moderate
Capital Goods	Moderate

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

Production Cost

- The cost of production as a percentage of sales for product for manufacturers in the survey has risen significantly as 69% respondents in Q-1 2017-18, against 60% respondents reported cost escalation in last quarter. This is primarily due to rise in minimum wages and raw material cost.

Auto

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Positive Outlook	Less than average levels of inventory	Positive Outlook	Positive Outlook

- About two-third of the respondents expect slightly higher production levels in the April – June 2017-18 quarter (when asked for an annual comparison). This also gets reflected in the order books as similar proportion of industry participants reported higher orders for the same quarter (on a sequential basis).
- On an average, the industry is employing about 78% of its installed capacity and for almost a third of the participants, it is higher than that of last year. Moreover, about 67% of the respondents reportedly plan to add capacity in the next six months to the tune of about 15%. However, the expansion plans may get affected by a few delays largely due to the lag period involved in getting plant and machinery, which usually extends to about 20 weeks.
- As for exports, most of the respondents are expecting higher export figures in the April – June quarter vis-à-vis same quarter last year. On average, the rise is about 13% over the same period.
- Almost all of the respondents expect exports to get impacted (fall of 0-5%) due to the recent currency appreciation while imports to get cheaper by 5-10%.
- About two-third of the respondents reported to be maintaining less than average levels of inventory largely owing to the transition from BSIII to BSIV emission norms.
- About 68% of the survey participants reportedly plan to hire additional workforce (with the average of 9%) in the next three months.
- Close to 50% of the covered industry representatives expect the growth of manufacturing sector to remain same while a few expect the growth to revive in near future. The sector has suggested that following issues need to be addressed to revive growth:

- ✓ Restricting large volumes of imports (esp. dumping of goods from China) in auto components
- ✓ Augmenting employability by developing skills which are presently inadequate for the Auto industry – Painting, Welding and Machining skills
- ✓ Higher investments in Infrastructure

- For a little over 50% of the respondents, cost of production as a percentage of their sales increased vis-à-vis last year. This was mainly attributed to inflationary pressures on raw material costs and increase in labour wages.
- Some of the significant constraints for the sector are unavailability of raw materials and that of skilled labour.

Capital Goods

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Improvement Expected	Moderate Outlook	Moderate Outlook	Not expected in next 6 months	Bleak Outlook

- For the April – June 2017-18 quarter, a little over 60% of the participants expect the output level to be higher (y-o-y basis) by an average of 6%.
- The same is matched by the order books for the quarter as approximately 55% of the sample reported higher orders as compared to the previous quarter of the current fiscal. However, about a third reported the same to be slightly lower.
- Currently, the sector utilises about 70% of its capacity which stands at a higher level than that of the previous year for 54% of the firms surveyed. Around 77% of the covered firms reported that they are not planning to add capacity in next 6 months.
- Exports for the present quarter are expected to rise (by an average 15%) for about 46% of the survey participants while almost two-fifths of the sample expects the quantum to remain the same (y-o-y). Almost three quarters of the firms responded that exports are likely to be affected to the tune of 0-5% due to rupee appreciation while about 60% said that this would help imports to get cheaper between 0-5%.
- However, close to 47% of the respondents are maintaining average inventory levels while almost a third reportedly are maintaining comparatively higher inventories.
- An overwhelming majority (85%) participants from this sector indicated that they are not likely to hire new workforce in near future.
- On an average, the industry reported to be availing credit at an interest rate close to 11.5%.
- About 42% of the participants expect growth rate of manufacturing sector to revive in near future while a third expect it to remain on the same growth path. Following suggestions have been proposed for faster revival of growth in the sector:

- ✓ Increase in government's capital expenditure and increased government procurement from domestic manufacturers
- ✓ Lower interest rates and cost of financing
- ✓ Across the board infrastructure development
- ✓ Faster implementation of Industrial Corridor Projects

- A mild rise in production level has been matched by a rise in production costs as 85% of the respondents reported higher input costs. This was largely accounted by increased wages and raw material costs along with relatively rising prices of commodities in the international market.
- Shortage of working capital, low domestic & export demand are reportedly some of the significant constraints for the sector which are restricting its growth.

Cement and Ceramics

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate outlook	Not indicated	Average inventory levels	Bleak Outlook	Bleak outlook

- The outlook for the sector is quite mixed as half of the respondents expect higher output level in the April – June quarter (vis-à-vis the year ago quarter) while the other half expecting a drop. The order books reflect similar impressions for the same quarter on a sequential basis.
- Capacity utilization in the sector was reported to be around 72%. Three-fifths of the participants indicated that they are operating at lower capacity, on a year-on-year basis, while others suggested improvement in the same. Almost 80% are not planning to add capacity in next few months.
- Almost 60% of the sample is reportedly maintaining average inventory levels of finished goods while others are having higher levels.
- About four-fifths of the reporting firms in the cement and ceramics sector are not planning to hire new work force in the next three months.
- This sector is reportedly availing credit at an average rate of 10.4%.
- Almost 60% of the participants believe that the growth rate of manufacturing is likely to remain the same in the next six months.
- About half of the respondents reported rise in the cost of production as a percentage of their sales.
- Issues that are affecting growth of the sector significantly are deficiency and high prices of raw materials and sluggish domestic demand. Other issues faced by the sector are
    - Deficiency of power, shortage of working capital and competition faced from duty free imports from neighbouring countries.

- Coal Supply: Inadequate domestic coal supplies against coal linkages is badly affecting the industry. Due to competitive price and uncertainty in the quality of linkage coal, about 63% of the fuel requirement is being fulfilled by procuring imported coal and pet coke which also acts as a drag on the country's forex reserves.
- Duty Free Import of Cement to be stopped: Government's policy of allowing duty-free import of cement in spite of India having more than 140 million tonnes of surplus cement capacity lying idle due to lack of demand has led to uneven playing field. There is a need to encourage and incentivize the cement and clinker export from India and re-impose duty on import of cement.

Chemicals & Fertilizers

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate Outlook	Improvement Expected	Average levels of inventory	Not expected in next 6 months	Not expected in the next 3 months

- For the quarter April – June 2017, half of the respondents expect no change in production levels while a third of sample expects slightly higher production levels (average 4%) vis-à-vis last year.
- As for the quantum of orders, half of the firms surveyed reported similar number of orders for the April – June quarter in comparison to the previous quarter, while about 42% reported higher number of orders.
- Capacity utilization stands at 76% for this sector and for almost two-thirds of the respondents it is at similar levels as compared to that of last year. Further, 92% of the manufacturers are not planning to add capacity in the next 6 months.
- Half of the respondents reported higher levels of exports during the April – June quarter (2017-18) over the same quarter of last year while a third experienced no change. Due to the recent currency appreciation, half of the respondents expect exports to fall between 0-5% of their current levels while a larger proportion (80%) expect imports to get cheaper in the same range.
- Almost 60% of the respondents are maintaining their average inventory levels with one third of the firms having higher inventory. Almost two-thirds of the participants are not planning to hire workforce in next 3 months.
- The chemical and fertilizer manufacturers are reportedly availing credit at an average cost of 11% p.a.

- Two-thirds of the respondents believe the growth rate of manufacturing sector would not change in coming months and the rest expect the same to revive. Following measures are suggested by respondents for revival of growth:
  - ✓ Interest rate needs to be lowered
  - ✓ Reduction in crude oil prices required to reduce feedstock cost
  - ✓ Further simplification of regulatory process
- For about 42% of the respondents, cost of production, as a percentage of their sales, remained the same as that of corresponding quarter a year earlier while the same rose for others.
- Deficiency of raw materials (esp. power), high input costs, sluggish domestic and export demand and competition faced from imports are significant constraints to the growth of the sector.

Electronics & Electricals

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive Outlook	Improvement Expected	Higher level of inventory	Not expected in next 6 months	Not expected in next 3 months

- For the quarter under consideration, about 56% of the sample is expecting higher production levels (with an average of 15%) on a y-o-y basis while others are expecting similar numbers vis-à-vis last year.
- A little over a third of the respondents reported higher level of orders for the same period while about 30% reported no growth.
- Current capacity utilization in the industry stands at 68% which is 10 percentage points higher than that of the previous quarter. However, about 78% of the firms reported no growth in capacity employment as compared to that of last year. Further, about two-thirds of the respondents are not planning to add capacity in next six months.
- About 63% of the survey participants expect higher exports (by about 6%) in the April – June 2017-18 quarter as compared to the same quarter of last year. Only a quarter of the participants are expecting lower exports. When asked about the impact of currency appreciation, two-third of the sample expected exports to register a fall in the range of 0-5% while three quarters believed prices of imports to fall in the same range.
- About two-third of the respondents were reportedly maintaining higher than average inventory levels while others were having average inventory levels.
- About 63% of the participants were reportedly reluctant when asked about their plans of hiring additional work force in next 3 months.
- Electronics industry's respondents are availing credit at an average rate of 12%.

- 56% of the sample in the sector expects the manufacturing sector to follow the current path in the next six months while a third remains upbeat about the same. The industry suggested improving infrastructure so as to control logistics costs to foster recovery of the sector.
- The sector has been experiencing a gradual rise in the cost of production as about two-third of the participants reported a rise than that of last year.
- Prices of raw materials, higher cost of finance and competition faced from imports (especially imports from China) are significantly affecting the growth of this sector.

Leather and Footwear

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Moderate Outlook	Moderate Outlook	Higher levels of inventory	Not expected in next 6 months	Positive Outlook

- For the April - June 2017-18 quarter, half of the respondents are expecting increased production levels vis-à-vis last year. Similar pattern of responses was observed when asked for the quantum of orders during the same quarter.
- The sector is employing about 55% of its installed capacity and majority of firms are not planning to add capacity in near future.
- Participants remained divided when asked about exports for the quarter as equal number are expecting higher and lower level of exports vis-à-vis the same quarter last year.
- Inventory level of most of the respondents is reported to be higher than their average levels.
- Notwithstanding the above scenario, most of the survey participants in this sector reported that they are planning to expand their workforce in next three months.
- On an average, firms in the sector reported to be availing credit at the rate of around 11%.
- All the respondents indicated increased cost of production largely on the back of rise in wages and raw material costs. Additionally, they suggested infrastructure improvement and lower cost of finance as measures to boost growth of the sector.
- Firms in leather and footwear sector are significantly constrained by deficiency and high prices of raw materials, deficiency of power, competition faced from imports and uncertain economic environment.

Machine Tools

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive Outlook	Not Available	Not Available	Bleak Outlook	Not Available

- Most of the respondents in this sector reported slightly higher output growth during the January – March quarter 2016-17 (y-o-y) and are expecting the same momentum (about 5-10%) for production during the quarter ending June 2017 (y-o-y). However, on a sequential basis, orders for the April – June 2017-18 quarter are expected to fall.
- The sector is reportedly operating at 80% of its installed capacity and the industry is not expected to add further capacity.
- The sector representatives expect an upturn in manufacturing growth in the coming six months. The respondents feel, in order to stimulate growth in the sector, the government should push more reforms (esp. in the Ease of Doing Business domain) for land, power and infrastructure.
- Some of the significant constraints for this sector are labour-related issues, shortage of working capital, lower external demand, competition faced from imports and uncertainty of economic environment.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate outlook	Moderate Outlook	Average levels of inventory	Not expected in next 6 months	Bleak Outlook

- For the April – June 2017-18 quarter, participants presented a divided opinion about production scenario as half of them expected similar while the other half expected increased output levels when compared to the corresponding period of last year.
- About 51% of the respondents reported higher quantum of orders in the quarter while 37% reported no growth in orders.
- As for exports, almost two-thirds of the respondents expected no change in exports for the April – June quarter (y-o-y basis) while the rest expected some improvement.
- Currently, the industry is operating at an average capacity of 76% and for over half of the sample (58%), it is higher than that of last year's. Further, almost all of the respondents reported that they have no plans to increase their capacity in next 6 months.
- As for the inventory level, an overwhelming 85% of the participants reported that they maintained average inventory levels.
- Almost all the respondents (90%) reported that they do not have any plans to hire new workforce in next 3 months.
- The respondents reported to have availed credit from the banks at an average rate of 12%.
- About two-thirds of the respondents feel that growth rate of the manufacturing sector will remain the same in short term. The industry suggested the following for revival of the sector's growth:
    - ✓ Infrastructure development, especially improving availability of power to the industry
    - ✓ Improving availability of raw materials (especially coal & ore)

- ✓ Lowering cost of finance

- Almost all of the respondents indicated increased cost of production largely on the back of rise in wages and raw material costs.
- Most of the respondents feel deficiency and high prices of raw materials, and lack of domestic and export demand as the most significant constraints for the industry's growth.

Paper Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Positive outlook	Moderate outlook	Average level	Not expected in next 6 months	Bleak Outlook

- Most of the respondents expect higher production levels for the sector during the April – June quarter (y-o-y basis) with similar expectations about the quantum of orders for the same quarter (q-o-q).
- On exports front, similar proportion of the sample expected same levels during the April – June quarter of 2017-18 as compared to corresponding period of last year.
- Currently, the industry is operating at an average capacity of 80% which stands at higher levels for almost half of the respondents as compared to that of last year. Owing to higher capacity utilisation and not much further increase in demand, most of the respondents reported that they are not planning to increase their capacity in the next 6 months.
- Majority of the survey participants reported that they are maintaining inventory levels at par with their average levels.
- Almost all of the respondents were not planning any increase in manpower in next 3 months.
- Presently, the average rate of interest for availing credit for the industry is reportedly between 11-12% p.a.
- Most of the industry representatives hold positive expectations regarding growth rate of manufacturing in coming months.
- The respondents also highlighted scarcity and higher prices of raw materials and competition faced from imports as areas of concern for the sector.

Textiles & Technical Textiles

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Improvement Expected	Moderate Outlook	Average levels of inventory	Not expected in next 6 months	Bleak Outlook

- For the quarter April – June 2017-18, a little over two-fifths of participants expect their production level to be similar to that of same quarter last year, while a third expect it to be higher as compared to the same over the same period.
- For the same quarter, about 35% of the sample respondents reported higher number of orders on a sequential basis while similar proportion reported no growth.
- On an annual basis, half of sample covered is expecting exports to remain subdued in April – June quarter whereas about a quarter are expecting exports to be slightly higher than those of last year. Well over 90% of the respondents feel the recent rupee appreciation would affect exports in the range of 0-5% while a similar proportion expects imports to get cheaper by the same magnitude.
- The average capacity utilization of the sector is hovering around 83% with about 53% of the respondents operating at the same capacity as that of last year. Given an already high capacity utilisation, almost 60% of the respondents do not foresee any growth in the same especially when demand is not expected to rise much.
- About 63% of the respondents in textiles sector have reported that their current inventory level is at par with their average inventory level while a quarter are reportedly having higher inventories.
- Almost three quarters of the covered sample indicated that they are not planning to hire new workers in next three months while others responded affirmatively.
- While the average cost of credit for the sector is around 9.5% but some of the respondents reportedly were availing the same at around 14%.

- Almost 70% of the respondents are confident about manufacturing growth to revive in coming months while a quarter expects it to remain at the current level in the near future. The following suggestions are made to stimulate growth in the sector:
  - ✓ Reduction in Transactional costs (energy, transportation costs, etc.)
  - ✓ Need to further rationalise cotton cost and procurement procedure
  - ✓ Reduction of interest rates
  - ✓ Increase in rate of interest subvention for exports
- Almost 70% of the sample respondents indicated an increase in cost of production and the prime reasons for the rise in production cost has been mentioned as higher input costs (including power and labour).
- Units in textiles sector are significantly affected by high prices of raw materials, labour related issues and low domestic and export demand. Additionally, industry has suggested that some of older legislations like Hank yarn obligation, Hand loom Reservation Act and Pollution control norms etc., needs a revision as such obligations pose as impediments to growth of the Textile Industry.

Textile Machinery

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Bleak Outlook	Not Indicated	Average levels of inventory	Not expected in next 6 months	Bleak Outlook

- The sector's output growth is expected to remain flat during the quarter April – June 2017-18 when measured on an annual basis. Further, on sequential comparison, industry has reported leaner order books for the same quarter.
- The industry is reportedly operating at 60% of its installed capacity which is similar to the levels witnessed in corresponding period of last year. Consequently, most of the respondents are not planning any capacity addition and hiring for the next 6 months.
- A large part of the sample suggested that they are maintaining level of inventory at par with their average level.
- Most of the respondents in the sector expect the manufacturing growth to remain the same for the next few months.
- The sector reportedly is experiencing an increased cost of production, vis-à-vis last year, largely owing to rising cost of raw materials, labour costs and power tariffs.
- Respondents from this sector have suggested restricting indiscriminate imports of second-hand machinery which are available domestically as well; restricting availability of TUFS benefit on second hand textile machinery; increasing import tariff on textile machinery and extending TUFS for the Textile Engineering Industry, as some of the measures for the government to boost the sector's performance.
- Apart from the above, non-availability of skilled manpower, duty inversion and daunting competition by cheaper imports are other significant challenges for this sector.