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**FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY**

**FICCI QUARTERLY SURVEY**

**ON**

**INDIAN MANUFACTURING SECTOR**

**June 2019**

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**Introduction & Quarterly Assessment for the Manufacturing Sector**

***Production and Demand***

FICCI’s latest quarterly survey assessed the sentiments of manufacturers for Q-1 (April-June 2019-20) for twelve major sectors namely automotive, capital goods, cement and ceramics, chemicals, fertilizers and pharmaceuticals, electronics & electricals, leather and footwear, medical devices, metal & metal products, paper products, textiles, textile machinery and miscellaneous. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over 3.5 lakh crore.

FICCI’s latest quarterly survey on Manufacturing portrays a moderation of outlook for the manufacturing sector in Q-1 (April-June 2019-20) as the percentage of respondents reporting higher production in first quarter has fallen vis-à-vis the Q-4 of 2018-19. Overall sentiments in manufacturing remains subdued as the proportion of respondents reporting higher output growth during the April-June 2019 has fallen to 41% as compared to Q-4 of 2018-19 (54%). The percentage of respondents expecting low or same production is 59% in Q-1 2019-20 which was 46% in Q-4 of 2018-19. In terms of order books, 36% of the respondents in April-June 2019 are expecting higher number of orders against 44% in January-March 2019.

**Figure: % of Respondents Expecting Higher Production in the Quarter**

**vis-à-vis Respective Last Year’s Quarter**

***Source FICCI Survey***

***Capacity Addition & Utilization***

* The overall capacity utilization in manufacturing has witnessed a slight fall to 78% in Q-1 2019-20 as compared to 80% in the previous quarter.
* The future investment outlook is slightly subdued than that was perceived in Q-1 of 2018-19. 37% respondents reported plans for capacity additions for the next six months as compared to 40% in Q-4 of 2018-19.
* High raw material prices, high cost of finance, uncertainty of demand, shortage of skilled labor, high imports, requirement of technology upgradation, low domestic and global demand, excess capacities, delay in disbursements of state and central subsidies and competing countries such as Bangladesh and Vietnam enjoying lower wage cost and export benefits resulting in erosion of competitiveness of Indian exporters are some of the major constraints which are affecting expansion plans of the respondents.
* In most of the sectors covered in the survey namely Automotive, Cement and Ceramics, Leather and Footwear, Paper Products and Textiles Machinery average capacity utilization has either decreased or remained almost same in Q-1 of 2019-20 as compared to Q-4 2018-19.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sector** | **Average Capacity Utilization in Q-1 2019-20** | **Average Capacity Utilization in Q-4 2018-19** | **Average Capacity Utilization in Q-3 2018-19** | **Average Capacity Utilization in Q-2 2018-19** |
| Automotive | 80 | 80 | 80 | 73 |
| Capital Goods | 76 | 74 | 74 | 73 |
| Cement and Ceramics | 80 | 80 | 60 | 70 |
| Chemicals, Fertilizers & Pharmaceuticals | 76 | 77 | 74 | 82 |
| Electronics & Electricals | 67 | 72 | 68 | 69 |
| Leather & Footwear | 60 | 60 | 60 | 60 |
| Metals & Metal Products | 76 | 88 | 74 | 86 |
| Paper Products | 95 | 95 | 80 | 88 |
| Textiles | 84 | 82 | 80 | 83 |
| Textiles Machinery | 60 | 60 | 60 | 60 |

***Inventories***

* 86% of the respondents are expecting either more or same level of inventory in April-June 2019, which is substantially higher than 69% as was the case in Q-1 of 2018-19. This has been largely due to subdued domestic and export demand.

***Exports***

* The outlook for exports is moderate as 34% of the participants are expecting a rise in exports for Q-1 2019-20 and 27% are expecting exports to continue to be on same path as that of same quarter last year.
* However, exchange rate fluctuations has not led to any significant change in exports as 79% of the respondents reported that the exports were not affected much by rupee fluctuation. Thereby, emphasizing that there were other global factors that are restrictingthe growth of our exports.

***Hiring***

* Hiring outlook for the sector shows a bleak picture as 65% of the respondents mentioned that they are not likely to hire additional workforce in the next three months. This shows a slight improvement from the hiring scenario in the previous quarter Q-4 of 2018-19, where 70% of the respondents were not in favour of hiring additional workforce.

***Interest Rate***

* Average interest rate paid by the manufacturers has slightly decreased to 9.9% p.a. as against 10.3% p.a. during last quarter, but the highest rate remains as high as 14%. The recent cut in repo rate by RBI should come as a relief for the industry if banks pass it on and it expects more reduction in the rates in coming months to drive investments.

***Sectoral Growth***

* Based on expectations in different sectors, it is noted that except sectors like Electronics & Electricals which is likely to register strong growth in Q-1 2019-20, whereas most other sectors are likely to have either moderate or low growth.

**Table: Growth expectations for Q-1 2019-20 compared with Q-1 2018-19**

|  |  |
| --- | --- |
| **Sector** | **Growth Expectation** |
| Electronics & Electricals | Strong |
| Textiles | Moderate |
| Chemicals, Fertilizers & Pharmaceuticals | Moderate |
| Capital Goods | Moderate |
| Paper Products | Moderate |
| Textile Machinery | Moderate |
| Cement & Ceramics | Moderate |
| Miscellaneous | Moderate |
| Automotive | Low |
| Metals and Metal Products | Low |
| Medical Devices & Technologies | Low |
| Leather and Footwear | Low |

*Note: Strong > 10%; 5% < Moderate < 10%; Low < 5%*

*Source: FICCI Survey*

***Production Cost***

* The cost of production as a percentage of sales for manufacturers in the survey has risen for 63% respondents. This, of course, is significantly lower than 72% for Q-4 of 2018-19. This is primarily due to increased cost of raw materials, wages, power cost, rising crude oil prices and increase in finance cost.

***Automotive***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Moderate | Average | Average level | Moderate | Negative |

* For Q-1 2019-20, two-third of the respondents expect some fall in the production level as compared to the previous year. This is reflected in order books as well, since 66 % of the respondents stated no change in the number of orders as compared to previous quarter.
* Currently, the sector utilizes 80% of its installed capacity which is less than that of last year for 66% of the respondents. However, two-third of the respondents are planning for expansion in next 6 months, expecting demand to pick up.
* 67% of the respondents expect same level of exports in April-June quarter vis-à-vis the same quarter last year. Exports fell in certain cases due to increase in import duty by some partner countries in South Asia.
* For all the respondents, exports were not affected due to exchange rate fluctuations, whereas, imports of components got expensive for 33% of the respondents.
* 66% of the participants mentioned that the cost of production as a percentage of sales has risen in the last few months. Some of the reasons for this included increase in the prices of steel, aluminum, rubber and plastics.
* On an average, the industry reported to be availing credit at an interest rate of 9.5% p.a.
* None of the respondents are planning to hire new workforce in the next 3 months.
* 66% of the respondents reported to have maintained more than average inventory levels for the quarter January-March 2019. On the other hand, 66% of the respondents were not expecting any change in the inventories for the quarter April-June 2019-20.
* About 66% of the respondents expect growth of manufacturing to remain at same level in near future. The sector has suggested following to accelerate growth:
* Increased spending by the government on infrastructure.
* Rationalisation of GST rates particularly in the 2-wheeler segment.
* Provision of investment incentives in the upcoming budget session.
* High prices of raw materials, low domestic as well as export demand, are some of the significant constraints faced by the sector. Other constraints faced by the sector are shortage of working capital finance, inverted duty structure, labour related issues, low export demand and unavailability of skilled labour.

***Capital Goods***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive | Positive | Same or More than average | Moderate | Moderate |

* 75% of the respondents expect production to be higher or same in the April-June 2019 quarter vis-à-vis the same quarter a year ago.
* On an average, the sector is utilizing about 76% of its capacity which stands at a similar or higher level than that of previous year for three-fourth of the respondents. Also, 38% of the participants are planning to add capacity in next 6 months.
* On the exports front, 75% of the respondents expect their exports to be higher or same in Q-1 2019-20 over Q-1 2018-19.
* 88% of the respondents reported that their exports did not increase despite depreciation in exchange rate. On similar lines, all the firms reported that the exchange rate depreciation did not affect their raw material imports’ prices much.
* 75% of the respondents reported a rise in the cost of production. This has been attributed to high raw material prices, finance cost, manpower and energy cost.
* 63% of the respondents were maintaining same inventory levels in January-March 2019 and around 43% of the respondents expect same inventory levels in the April-June quarter. Another 43% respondents expect high inventories in the April-June quarter.
* 63% respondents are not planning to hire additional workforce in near future. Whereas, rest of the respondents are planning to hire new workforce, some as high as 30%.
* On an average, the industry reported to be availing credit at an interest rate close to 11.8% p.a.
* About 63% of the respondents expect revival of manufacturing growth in near future. Following have been proposed for revival of growth in the sector:
* Infrastructure development in Railways, Ports, Bridges, Dams, Metros, Power and Real Estate needs to be given priority to revive demand for capital goods
* Interest rate needs to be lowered.
* Increase in the availability of finance.
* More training centers with modern equipment need to be established for training workforce for the sector
* High prices of raw materials, low domestic and export demand, competition faced from imports, labor related issues, unavailability of skilled labor are reportedly some of the significant constraints for the sector which are restricting its growth. Other constraints include deficiency of raw materials, shortage of working capital finance, and inverted duty structure.

***Cement and Ceramics***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |
| --- | --- | --- | --- |
| **Production** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Moderate | Higher than average level | Positive | Bleak |

* Half of the respondents are expecting the same level of production in Q-1 2019-20 vis-à-vis the same quarter last year which is reflected in the order books as well.
* Average capacity utilization in the sector stood at 80% which is higher than that of last year for 50% of the respondents. Similar percentage of respondents are planning to add capacity in next few months.
* Respondents reported their cost of production as a percentage of their sales increased vis-à-vis last year due to increased prices of raw materials, power cost, wage inflation and compliance cost.
* Around 50% of the respondents were reportedly maintaining average inventory levels during January-March 2019 and the remaining were maintaining higher inventory levels. Also, half of the respondents expect higher inventories than average for April-June quarter.
* None of the respondents are planning to hire new work force in the next three months.
* The sector is availing credit at an average rate of around 9 % p.a.
* Half of the respondents are of the view that growth of manufacturing sector is likely to revive in next six months. Major recommendations for the sector are to increase spending on public infrastructure and government-aided housing projects, reducing lending rates, simplify GST and reduce corporate and personal income tax to enhance spending.
* Some of the constraints significantly hampering growth of the sector include high prices of raw materials and low domestic and export demand. Other constraints include existing inverted duty structure, cost of labour compliance, deficiency and the high cost of power and competition faced from imports.

***Chemicals, Fertilizers & Pharmaceuticals***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Positive | Low | Average level | Positive | Moderate |

* 90% of the respondents are expecting either high or same production in Q-1 2019-20 vis-à-vis the same quarter last year. A similar percentage of the respondents reported same or more orders in the April-June quarter.
* Average capacity utilization stood at 76% for this sector and is at higher level for 30% of the respondents as compared to last year. Also, half of the respondents are planning to add capacity in next 6 months.
* 90% of the respondents are expecting lower exports in April-June 2019 as compared to last year. However, the changes in the exchange rate has little impact on exports for 80% of the respondents. On the other hand, 67% of the surveyed firms reported that imports of raw materials got expensive due to exchange rate fluctuations.
* 45% of the respondents reported an increase in the cost of production vis-à-vis last year. The cost of production increased due to increased price of raw materials, high power cost, high transportation cost and higher wages.
* 70% of the respondents maintained their average inventory levels in January-March 2018-19. On the other hand, 63% of the respondents were expecting to maintain average inventory level for April-June quarter.
* 30% of the surveyed firms are planning to add workforce in near future in the range of 5-8%.
* Manufacturers in the sector are reportedly availing credit at an average rate of around 9.4% p.a.
* Most of the respondents (70%) expect manufacturing growth to accelerate in coming months. Following measures are suggested by respondents for early revival of growth:
* Easy availability of funds at lower interest rates.
* Need to reduce energy tariffs.
* Facilitate infrastructure like natural gas pipeline to scale up production
* Unavailability and high prices of feedstock/raw materials and the unavailability of skilled labour are the most significant constraints to the growth of the sector. Other constraint being inverted duty structure, deficiency of power, low export demand and competition faced from imports.

***Electronics & Electricals***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive | Positive | Average level | Positive | Bleak |

* For Q-1 2019-20, 67% of the respondents expect production to increase as compared to same quarter last year. Similar percentage of respondents reported same or higher level of orders for Q-1 2019-20 vis-à-vis the previous quarter.
* The sector is utilizing about 67% of its installed capacity. Two-third of the reported firms are maintaining higher installed capacity as compared to that of last year and a similar proportion of respondents in this sector reported to add capacity in next six months.
* 67% of the respondents expect a rise in exports while rest of the respondents reported exports to fall in Q-1 2019-20 compared to the last year.
* None of the exporters experienced a change in exports due to rupee fluctuation. However, for 67% of the respondents imported inputs got expensive due to rupee fluctuations.
* Cost of production as a percentage of sales remained same for 67% of the respondents.
* Two-third of the respondents were reportedly maintaining more than average level of inventories in January-March and an equal percentage of respondents were maintaining same level of inventories in April-June quarter.
* Majority of the respondents were not having any plans of hiring additional work force in next 3 months.
* Industry’s respondents reportedly are availing credit at an average rate of around 10.38% p.a.
* Majority of the respondents expect the sector to remain at same level in next six months. Following was suggested to boost growth of manufacturing:
* There is a need to check sub-standard imports of electronics products.
* Encourage exports of by increasing export incentives
* High prices of raw materials, low domestic demand and competition faced from imported goods are significantly affecting growth of this sector. Other constraint includes low export demand and inverted duty structure.

***Leather and Footwear***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Moderate | Same | Less than average | Bleak | Bleak |

* Leather manufacturers are expecting the production level to remain the same during the April-June quarter as compared to the previous quarter. This is reflected in the order books as well.
* Current capacity utilization stands at 60% which is same as that of last year for all the respondents. None of the respondents are planning to add capacity in near future.
* The sector saw an increase in exports by 2 % during Q-4 2018-19 vis-à-vis the same quarter last year. The respondents in the sector are expecting same exports during April-June 2019 as compared to the year ago quarter.
* In terms of impact of change in exchange rate, imported inputs got expensive while exports remain unaffected.
* Cost of production increased during the quarter owing to fluctuations in the currency.
* The respondents in leather and footwear sector were maintaining more than average inventory levels in January-March 19 and were expecting the inventory levels to be lower in April-June 2019.
* None of the participants are planning to expand their workforce in next three months.
* The sector is availing credit at a rate of around 11 % p.a.
* Respondents expect growth of manufacturing to revive in next six months and they expect more government spending on infrastructure for revival of growth.
* Firms in leather and footwear sector are significantly constrained by prices of raw materials, inverted duty structure, shortage of working capital finance and low domestic and export demand.

***Medical Devices***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Negative | Negative | Average | Moderate | Moderate |

* Majority of the respondents are expecting a fall in production for April-June 2019 quarter as compared to the same quarter last year. This is reflected in their order books as well.
* Average capacity utilization in the sector stood at 70%.Less than half of the respondents are planning to add capacity in the next few months.
* The sector is expecting the exports to fall considerably in Q-1 2019-20 vis-à-vis the same quarter last year.
* There was no effect of exchange rate fluctuation on either the exports or imports of raw materials in this sector.
* Cost of production remained same during the quarter.
* The respondents in the sector were maintaining average inventory levels in January-March 2018-19 and are expecting same inventory levels in April-June 2019.
* Half of the respondents are planning to expand their workforce in next three months, increasing their workforce by approximately 12%.
* The respondents reported that they are availing credit at a rate of around 11 % p.a.
* Respondents expect growth of manufacturing to revive in next six months. The sector has suggested following to accelerate growth:
* Reduce the dependency on raw materials from other countries.
* Set up more government-aided R&D labs for consultancy in Electromagnetic interference/ Electromagnetic packaging and compatibility ( EMI / EMC) for industry stakeholders.
* Subsidise costs of testing which is very high now, especially for small players.
* Firms producing medical devices are significantly constrained by the deficiency of raw materials & power and competition faced from imports. Other constraints faced are unavailability of skilled labour and shortage of working capital finance.

***Metal and Metal Products***

***Quarterly Outlook for the Sector at a Glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive | Moderate | Average level | Negative | Bleak |

* Production of metal and metal products is expected to be positive in Q-1 2019-20 as 90% of the respondents expect production to be higher or same when compared to the corresponding period of last year. 70% of the respondents reported higher or same orders compared to previous quarter.
* The sector is reportedly operating at an average capacity utilization of 76% which is same or more than last year for 80% respondents. Also, 90% of the respondents reported that they have no plans to increase their capacity in next 6 months.
* As for exports, 50% of the respondents expect exports to rise or remain same for the April-June quarter (y-o-y basis).
* 88% of the exporters reported that exports did not change despite exchange rate fluctuations. For 60% respondents, the raw material imports were also not affected due to rupee fluctuations.
* Cost of production increased for 55% respondents, due to increase in prices of major raw materials like iron ore and imported coke, electricity tariff, manpower cost and interest rates.
* As for the inventory level, 60% of the respondents were maintaining average inventory levels in January-March whereas in April-June, 57% of the respondents were maintaining more than their average inventory levels due to lower domestic demand.
* 70% of the metal sector respondents have reported that they are not planning to hire new workforce in next 3 months.
* The respondents reported to have availed credit from banks at an average rate of around 10.8% p.a.
* 70% of the respondents felt that growth rate of the manufacturing sector will revive in coming months. Industry suggested the following for acceleration of sector’s growth:
* Effective industrial policy for propelling growth
* Easy availability of raw material especially coal and iron ore
* Increase the pace of infrastructure development
* Interest rates need to be lowered
* Electricity to be brought under GST ambit
* There is a need to check influx of cheap imports
* Most of the respondents felt that high price and deficiency of raw materials, low domestic demand along with shortage of working capital finance and competition faced from imports are 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 | Moderate | Average level | Positive | Bleak |

* For Q-1 2019-20, all the participants expect their production to be more than that of same quarter last year. 67% of the respondents reported same or higher number of orders as compared to the previous quarter.
* The average capacity utilization of the sector is hovering around 95% with 67% of the respondents operating at higher capacity than that of last year. A similar percentage of respondents plan to expand capacity in next six months.
* On an annual basis, 33% of the surveyed firms are expecting exports to increase in Q-1 2019-20. Rest of the respondents are expecting same exports vis-à-vis a year ago quarter. Exports of 67% of the firms have been affected due to exchange rate fluctuations.
* However, since the sector is sensitive to exchange rate fluctuations, the imported inputs for one third of the paper sector got cheaper.
* Cost of production as a percentage of sales for their product decreased for 67% of the paper sector respondents due to increased efficiencies and cost reduction efforts in manufacturing. Whereas for rest of the respondents cost of production increased due to increased raw material and manpower cost.
* Two-third of the respondents in the sector reported that their current inventory level is less than the average inventory level for previous quarter. A similar proportion of respondents in the sector reported that their current inventory level is same as the average inventory level for April-June.
* 67% of the respondents are not planning to hire workforce in next 3 months.
* Sector is reportedly getting credit at an average rate of over 9%.
* The respondents believe that overall manufacturing sector would continue to grow at the same level. The industry has suggested increased focus on education, health and infrastructure. It was also suggested to have a structured policy for social forestry by use of waste land and restricting imports for revival of growth.
* Deficiency and high prices of raw materials along with competition faced from imports are significant constraint for the sector which are restricting its growth. While low domestic and export demand are other constraints faced by the sector.

***Textiles***

***Quarterly Outlook for the sector at a glance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investment for Expansion** | **Hiring** |
| Positive | Positive | Average inventory | Subdued | Positive |

* For April-June 2019, 70% of the participants expect their production level to be higher or same as compared to the same quarter last year. This is reflected in order books as well as 71% of the respondents reported same or higher number of orders as compared to the previous quarter.
* The average capacity utilization of the sector is hovering around 84% with 40% of the respondents operating at same capacity as that of last year. There are no plans for capacity expansion by 62% of the respondents.
* On y-o-y basis, 68% of respondents expect exports to rise or remain same in Q-1 of 2019-20.However, 79% of the respondents reported that their exports did not change despite the recent exchange rate fluctuations. Also, 66% reported that the imports of raw materials were not affected due to currency fluctuations.
* 70% of the respondents reported an increase in the cost of production due to high prices of raw material, wage cost, higher interest rates and increased costs due to technology upgradation.
* Industry’s respondents are availing credit at an average rate of 10%.
* 50% of the respondents in the sector have reported that their inventory level was same as their average inventory level in January-March quarter. During, April-June, 47% of the respondents are expecting same inventory as their average inventory level.
* Half of the surveyed firms are planning to hire new workforce in near future.
* The sectoral growth rate is likely to remain same in next six months as per 50% of the survey respondents. The industry has suggested the following for reviving growth:
* Interest rates need to be lowered
* Need to expedite refund of GST input tax credit
* Need to expedite returns of state levies scheme
* Need to reduce electricity rates with open access
* Need for duty free access to main importing countries like USA & Europe to provide a boost to the apparel exports of the country
* Revival of banking system to reduce NPA thereby ensuring easy flow of funds for the industry
* Reduction in rates and simplification of GST for textile value chain
* Need of government support in technological upgradation
* Mandating use of some technical textiles products to encourage their usage
* High prices of raw materials, labor related issues, low domestic demand, competition faced from imports, inverted duty structure and availability of skilled labor are reportedly some of the significant constraints for the sector which are restricting its growth. Deficiency of raw material and components, shortage of working capital finance, low export demand, absence of standards & regulatory compliance for products are other constraints faced by the sector.

***Textiles Machinery***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Positive | Subdued | Average levels of inventory | Bleak | Bleak |

* Textile machinery manufacturers expect their output to be higher in April-June 2019 vis-à-vis the year ago quarter by 7.5%.
* The average capacity utilization of the sector is hovering around 60% with respondents operating at same capacity as that of last year. There are no plans for capacity expansion in near future.
* On an annual basis, respondents are expecting exports to fall in Q-1 2019-20 by 2-6% as compared to last year. The exports did not change despite recent rupee fluctuations whereas raw material imports have become expensive by 5-10%.
* Cost of production increased for the sector overall due to high manpower and raw material prices.
* 67% of respondents in the sector have reported that their current inventory level was same as their average inventory level in previous quarter whereas for April-June, nearly 67% of the respondents reported to have maintained same or less than their average inventory levels. There are no plans to hire new workforce.
* The respondents in the sector expect manufacturing to remain at same level in next six months. The industry has suggested the following for revival of sector’s growth:
* To increase the income tax exemption limit on in-house R&D to 200%. It should also be allowed to the textile machinery manufacturers where the ownership structure is sole proprietorship and partnership.
* Second hand machinery should not be allowed to be imported duty free.
* To remove bottlenecks in EPCG (Export Promotion Capital Goods) under Foreign Trade Policy 2015-2020 to facilitate import of capital goods by Specified Importers at ‘zero duty’ for producing quality goods and services to enhance India’s manufacturing competitiveness
* Since the domestic supplies of EPCG license holders are recognized as “deemed exports” under the EPCG scheme, imports under EPCG scheme should be treated at par with EOU’s by eliminating mandatory ‘Bank Guarantee’ (BG) which will encourage import substitution and provide a level playing field to the industry.
* Establishment of a cluster in Western/ Southern India to provide land and ready infrastructure to prospective textile machinery and accessory manufacturers.
* To encourage exports particularly to Africa through EXIM bank facilities
* Special assistance should be provided for participation in international textile machinery exhibitions.
* Need to investigate the issue of NPAs so that adequate funding is facilitated.
* Inverted duty structure, low domestic and export demand and competition faced from imports are significant constraints faced by the sector. Other constraints faced by the sector are high prices of raw materials, deficiency of power, labor related issues and shortage of working capital finance.

***Miscellaneous***

***Quarterly Outlook for the Sector at a Glance***

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| --- | --- | --- | --- | --- |
| **Production** | **Exports** | **Inventory** | **Investments for Expansion** | **Hiring** |
| Moderate | Moderate | Higher than Average level | Negative | Negative |

* All of the miscellaneous sector respondents expect production to be same during Q-1 2019-20 compared to the same quarter last year.
* The sector is utilizing 73% of its installed capacity. None of the respondents are planning to add capacity in next few months.
* Two-third of the sector expects exports to be higher in April-June 2019 quarter compared to the same quarter last year.
* Due to rupee fluctuations, exports were affected for 67% of the respondents.
* For all respondents, cost of production has increased as a percentage of their sales due to high raw material prices and increase in manpower cost.
* While, 67% of the respondents were maintaining higher than their average inventory levels during January-March, a similar trend was seen for the quarter April-June.
* None of the surveyed firms are planning to hire new workforce.
* On an average, firms in the sector reported to be availing credit at the rate of around 10% p.a.
* Miscellaneous sector largely expects slowdown in the growth of the manufacturing sector in coming months. Some of the suggestions for reviving growth include:
* Need to bridge the technology gap
* Protect industry from dumping of Chinese products
* Sector is apprehensive about increased prices of raw materials, lack of domestic demand and competition faced from imports. Other constraints faced by the sector are labor related issues and high rates of GST.