FEDERATION OF INDIAN CHAMBERS OF COMMERCE & INDUSTRY

FICCI QUARTERLY SURVEY

ON

INDIAN MANUFACTURING SECTOR

June 2022

CONTENTS **Page No.**

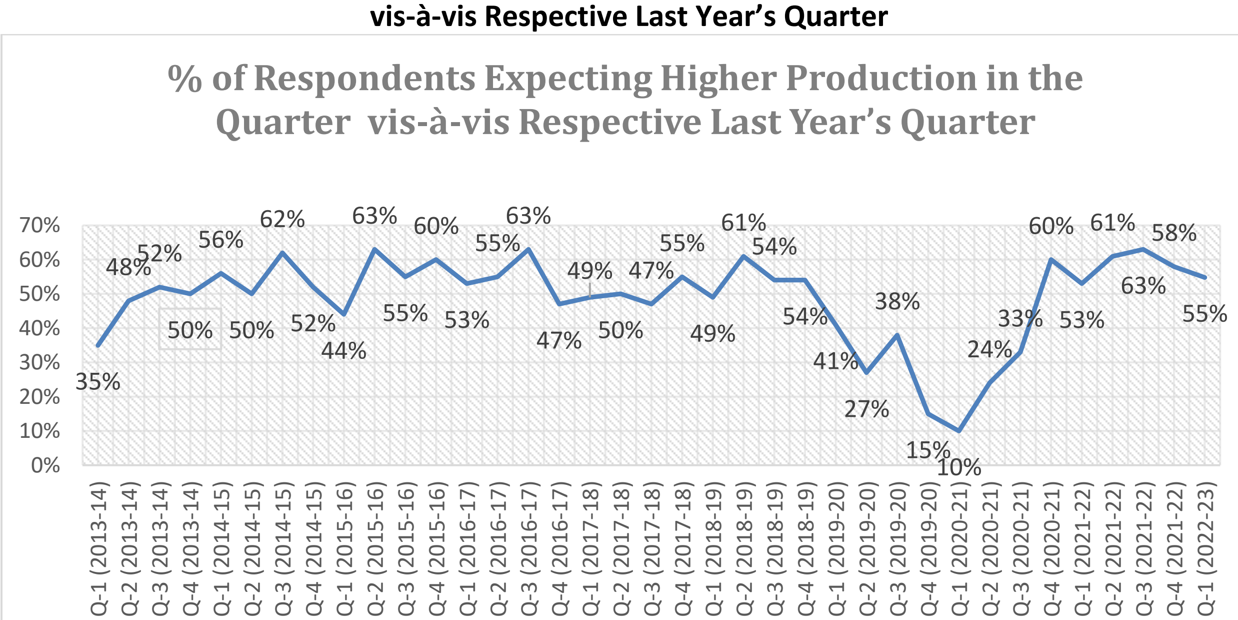
Introduction & Quarterly Assessment for the Manufacturing Sector

Production and Demand

FICCI's latest quarterly survey assessed the sentiments of manufacturers for Q-1 April-June (2022-23) for twelve major sectors namely Automotive, Capital Goods, Cement, Chemicals, Fertilizers and Pharmaceuticals, Footwear, Machine Tools, Metal & Metal Products, Paper Products, Textiles, Toys, Tyre 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 lakh crores.

FICCI's latest quarterly survey on Manufacturing reveals that after experiencing revival of Indian economy in the first three quarters of 2021-22, momentum of growth continued in subsequent quarters of Q-4 (Jan-Mar 2021-22) and Q-1 April-June (2022-23). 54.8% respondents reported higher production levels in Q-1 (April- June 2022-23), with an average expectation of increase in production by over 10%. This is slightly more than the percentage of respondents experiencing higher growth in Q-1 of last year. This assessment is also reflective in order books as 55% of the respondents in Q-1 (April-June 2022-23) are expecting higher number of orders.

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



Source FICCI Survey

Capacity Addition & Utilization

- The existing average capacity utilization for Q4 2021-22 in manufacturing is 77%, a little higher than 75% in the previous quarter, which reflects increased economic activity in the sector.
- The future investment outlook also improved as compared to previous quarters but remains that of cautious optimism, as 40% respondents reported plans for capacity additions in the next six months, by 14% on an average.
- Global economic uncertainty caused by the Russia-Ukraine War and increasing cases of COVID worldwide have accentuated the volatilities impacting the major economies. High raw material prices, increased cost of finance, cumbersome regulations and clearances, shortage of working capital, high logistics cost due to rising fuel prices and blocked shipping lanes, low domestic and global demand, excess capacities due to high volume of cheap imports into India, unstable market, high power tariff, shortage of skilled labor, highly volatile prices of certain metals etc. and other supply chain disruptions are some of the major constraints which are affecting expansion plans of the respondents.
- The table below, gives average capacity utilization in Q4 2021-22 for various sub-sectors of manufacturing.

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

Sector	**Average Capacity Utilization in Q-4 2021-22**
Automotive	80
Capital Goods	75
Cement	80
Chemicals, Fertilizers & Pharmaceuticals	70
Electronics & Electricals	-
Metals & Metal Products	75
Paper Products	95
Textiles	82

Inventories

- 80% of the respondents expect either more or same level of inventory in Q-1 April-June 2022-23, which is a bit lower as compared to the previous quarter, where around 90% respondents expected either more or same level of inventory.

Exports

- The outlook for exports seems to be positive as 53.4% of the respondents expect an average increase of 15.2% in exports in Q-1 2022-23 as compared to the first quarter of last year.

Hiring

- There seems to be an improvement in employment creation by the sector as compared to the previous quarter (Q-3 of 2021-22), where only 25% of the respondents were looking at hiring in next few months. This percentage has improved significantly to 53% of the respondents in Q-1 2022-23 who are now looking at hiring additional workforce in the next three months.

Interest Rate

- Average interest rate paid by the manufacturers has increased to 9.69% p.a. as against 8.4% p.a. during last quarter and the highest rate at which loan has been raised is 16% p.a. High lending rates were reported by around 70% of the respondents.

Sectoral Growth

- Based on expectations in different sectors, almost all sectors are likely to register moderate to strong growth in Q-1 2022-23 except few as given in the table below.

Table: Growth expectations for Q-1 2022-23 compared with Q-1 2021-22

Sector	Growth Expectation
Automotive	Moderate
Capital Goods	Strong

Cement	Strong
Chemicals, Fertilizers & Pharmaceuticals	Moderate
Footwear	Low
Machine Tools	Strong
Metals & Metal Products	Moderate
Miscellaneous	Moderate
Paper Products	Moderate
Textiles	Strong
Toys	Moderate
Tyre	Strong

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 91% respondents in Q-4 2021-22. Reduced availability and high raw material prices especially that of steel, increased transportation, logistics and freight cost, and rise in the prices of crude oil and fuel have been the main contributors to increasing cost of production. Other factors responsible for escalating production costs include enhanced labor costs, high cost of carrying inventory, and fluctuation in the foreign exchange rate.

Workforce Availability

- Most sectors have sufficient labor force engaged in their operations and are not facing shortage of labor at factories. While 77% of our respondents mentioned that they do not have any issues with workforce availability, the remaining 23% feel that there is lack of skilled workforce available in their sector.

Sectoral Analysis

Automotive

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate	Positive	Low	Positive	Positive

⇒ Only a third of the respondents had production higher in Q4 January-February 2021-22 vis-à-vis the same quarter a year ago. Similarly, around 33% of the respondents expect a higher production for Q1 April-June 2022-23. With respect to orders in Q1 2022-23, 67% of the respondents expect them to be higher than the previous quarter.

⇒ On an average, the sector is utilizing about 80% of its capacity, which is higher than last year as reported by a third of the respondents. Also, 67% of the respondents reported that they are planning to expand capacity in next 6 months by 11% on an average.

⇒ On the exports front, 33% of the respondents reported their exports to be 15% higher in Q4 2021-22. Furthermore, 67% of the respondents expect their exports to be over 9% higher on an average in Q1 2022-23 based on an expectation of improvement in export demand.

⇒ Over two thirds of the respondents reported a rise in the cost of production. This has been attributed to reduced raw material availability and higher costs, especially of Steel, Aluminium, Rhodium, Palladium, ABS and Rubber, increased logistics cost due to increase in fuel prices and increase in operating costs.

⇒ All the respondents were maintaining less than or same level of average inventory levels in Q4 2021-22 and only a third expect average inventory levels in Q1 2022-23 to be more than the average level.

⇒ Post relaxations in lockdown conditions, 100% operations have resumed in the factories/facilities of all the respondents.

⇒ No workforce availability constraints have been reported. In addition, more than half of the auto sector respondents are planning to expand their workforce by *5%* on an average in the near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 11% p.a. All the respondents expressed that there is sufficient availability of funds from banks.

⇒ To check the spread of fourth wave, automotive sector respondents are maintaining safety protocols, ensuring maximum vaccination coverage to employees and channel partners, maintaining social distancing, properly sanitizing their workspace and strictly monitoring adherence to other COVID protocols.

⇒ The respondents expect manufacturing growth to revive in next six to nine months. Following is proposed for revival of growth in the sector:

- Increased spending by the government on infrastructure and speed up the initiatives to drive Make in India and Aatmanirbhar Bharat.
- Promote investments and stabilize fuel and raw material prices.
- Introduce steps to control the logistics cost and increase availability of shipping lines.
- Reduce interest rates to enhance credit availability.

⇒ Limited availability and high cost of raw material and components and supply-chain issues are the most significant constraints to the growth of the sector. Other constraints include lack of domestic demand, consignments stuck at ports, export issues and business uncertainty.

Capital Goods

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Strong	Positive	Average level	moderate	Bleak

⇒ About 70% of the respondents had higher production in the Q4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and 60% of the respondents expect this trend to continue in the Q1 April-June 2022-23. This trend is also reflected in the order books which show that over 80% of the respondents expect orders in Q1 2022-23 to be higher or same than those in Q4 2021-22.

⇒ On an average, the sector is utilizing about 75% of its capacity which is same or more than last year as reported by 90% of the respondents. 20% of the respondents in this quarter are planning to make investments and expand capacity by 12.5% on an average in the next six months.

⇒ On the exports front, over 50% of the respondents reported their exports to be higher in Q4 2021-22 over Q4 2020-21. In addition, more than half of the respondents expect their exports to be higher in Q1 2022-23 as compared to the same quarter last year.

⇒ All the respondents reported a rise in the cost of production. This has been attributed majorly to the increase in raw material prices especially steel and high fuel cost causing freight costs to increase.

⇒ While 20% of the respondents maintained more than average inventory levels in Q4 2021-22, 70% maintained the average levels. Only 10% of the respondents expect more than average inventory levels in Q1 2022-23, owing to supply chain problems.

⇒ According to the respondents in capital goods sector, around 80% of operations is taking place in factories/facilities.

⇒ 90% of the respondents reported that they are not facing any shortage of labor force presently and only 20% plan on hiring additional workforce within the next three months. However, a small proportion is facing the issue of unavailability of skilled labor.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 9.8% p.a. and all the respondents reported sufficient availability of funds.

⇒ To check the spread of fourth wave, capital goods sector respondents are carrying out vaccination drives (including for contract workmen), adopting all the health and safety hygiene activities (social distancing, avoiding any mass social gathering, always wearing masks), organizing COVID awareness campaigns and following COVID protocols.

⇒ All the respondents expect manufacturing growth to revive in next six to nine months and following measures have been proposed for revival of growth in the sector:

- Reduction in GST rates, correct inverted duty structure, stabilization of commodity and raw material prices, fuel price reduction, imposition of non-tariff barriers on goods imported where domestic capacities available, and improving the semiconductor availability.
- Simplify GST Input credit availing process
- Capex budgets in public sector need to be speedily released and incentives for promoting capital expenditure need to be introduced.
- Rationalise raw material duties and replace old powerplants with modern, eco-friendly and efficient power plants of higher capacity.
- R&D support for the industry and extending PLI schemes for the specialty steel to boost investments in the sector.
- Open access to renewable power so that firms can take the benefits of low energy generation costs and India's manufacturing can be improved.

⇒ Supply chain issues, limited availability and rising costs of raw material and components, lack of domestic demand, logistical bottlenecks and skilled labour availability are reportedly some of the significant constraints for the sector which are restricting its growth.

Cement

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investments for Expansion	Hiring
Strong	Same level	Same level	Moderate	Moderate

⇒ About 50% respondents expect production to be higher in Q4 Jan-Mar 2021-22 vis-à-vis the same quarter a year ago. Also, half of the respondents feel positive about the production levels rising in Q1 April-June 2022-23. This trend is also reflected in the order books which shows that over 50% of the respondents expect orders in Q1 2022-23 to be higher or same than those in Q4 2021-22.

⇒ On an average, the sector is utilizing about 80% of its capacity. Among all the respondents, 90% are operating at a higher capacity level compared to that of previous year. Around 50% of the respondents in this quarter are planning to make investments and add capacity in next six months.

⇒ On the exports front, all the respondents reported their exports to be relatively the same in Q4 2021-22 as compared to Q4 2020-21. On average, the exports have remained unchanged for the industry and half of the respondents expect them to remain the same in Q1 2022-23.

⇒ All the respondents reported an increase in the cost of production. The cost of production has increased mainly due to increase in international price of imported pet coke and imported coal, increase in crude prices due to prevailing war situation between Russia & Ukraine.

⇒ All the respondents were maintaining same levels of average inventory in Q4 2021-22.

⇒ According to the respondents in cement sector, around 90% of operations are taking place in factories/facilities post relaxations in lockdown conditions.

⇒ The respondents reported no shortage in availability of labour in the market and about 50% of the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported availability of sufficient funds with credit being available at an interest rate close to 8% p.a.

⇒ Respondents in the cement sector mentioned that they are encouraging all employees for vaccination, organizing awareness drive through various online initiatives, installing oxygen plant in Delhi and implementing SOPs to contain the spread of any expected wave.

⇒ All the respondents expect manufacturing growth to revive in next three. Following has been proposed by the industry for revival of growth in the sector:

- Increased government spending on infrastructure projects and extending monetary help to the lower sections of society through relevant policies.
- Need for higher import duty to promote domestic goods, reduction in GST rates, ensuring fund availability.

⇒ Insufficient availability of raw material and rise in cost of production are the major concerns of the industry.

Chemicals, Fertilizers & Pharmaceuticals

Quarterly Outlook for the Sector at a Glance

Production	**Exports**	**Inventory**	**Investments for Expansion**	**Hiring**
Moderate	Moderate	Same or higher than Average level	Moderate	Bleak

⇒ Around 50% of the respondents experienced a higher production in the Q4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and about 80% of the total respondents expect production to be higher or same in Q1 April-June 2022-23 as compared to the previous quarter. This trend is reflected in the order books as well, as 70% of the respondents expect orders in Q1 2022-23 to be higher or same than those in Q4 2021-22.

⇒ On an average, the sector is utilizing about 70% of its capacity, almost same as the previous year. Among all the respondents, 20% are operating at a higher capacity level as compared to that of previous year and rest 80% are operating at similar levels. Also, 50% of the respondents reported that they are planning to add capacity to their existing investments in near future.

⇒ On the exports front, 30% of the respondents reported their exports to be higher in Q4 2021-22 over Q4 2020-21. 40% of the respondents expect exports to be higher in Q1 2022-23 by 6.87% as compared to the previous quarter.

⇒ All the survey respondents reported a rise in the cost of production. This has been attributed to increase in raw material prices such as that of natural gas, power, fuel, intermediates, and increase in logistics cost especially of shipping.

⇒ Around 60% of the respondents maintained the same average inventory level in Q4 2021-22. All the respondents are expecting to maintain the same or higher levels of average inventory in Q1 2022-23 as compared to that in Q4 2021-22.

⇒ According to respondents in the sector, around 92% of operations are taking place in factories/facilities post relaxations in lockdown conditions.

⇒ The respondents reported no shortage of labour in the market and only about 30% of the respondents are planning to hire additional workforce in near future.

⇒ Approximately 80% of the respondents responded that they have sufficient funds available to them from their banks for fulfilling their capital requirements. The average rate of interest at which the industry is availing credit was reported to be around 8.75%.

⇒ Companies in this sector reported to ensure 100% vaccination for all their employees including contract labors, regular washing of hands and keeping safe distance at work to avoid the spread of third wave. They also mentioned avoiding crowding of people, allowing limited number of workers, preferring online meetings, and taking all the precautionary measures.

⇒ The respondents across the industry expect manufacturing growth to revive in next six to nine months. As per the industry, following should be the top priorities of the government to revive the growth in manufacturing:

- Tax structure reforms, support to the industry for enhancing domestic production of medical device components, and fast-forwarding indigenization of key import goods like semiconductors.
- Easy availability of credit at lower interest rates and providing financial support to the small manufacturers in this sector.
- Enhancing overall manufacturing productivity and introducing sustainable and environment friendly policies.
- Promotion of Ayurvedic products globally and creating confidence among consumers with the help of scientific evidence for its efficacy and safety.

⇒ Insufficient availability of raw materials, consignments stuck at ports and supply chain disruptions are the most significant constraints to the growth of the sector. Subdued domestic and export demand, high freight and energy costs and credit constraints have also been reported.

Footwears

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate	Positive	Average level	Bleak	Positive

- ⇒ About 66% of the respondents had higher production in Q4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and almost same percentage of respondents expect higher production levels in the Q1 April-June 2022-23 as compared to the previous quarter. This trend is also reflected in the order books which show that all the respondents expect orders in Q1 2022-23 to be higher than those in Q4 2021-22.
- ⇒ On an average, the sector is utilizing about 60% of its capacity. Among all the respondents, 67% are operating at a higher capacity as compared to that of previous year. Around one third of the respondents in this quarter are planning to make investments and add capacity in next six months.
- ⇒ On the exports front, all the respondents reported their exports to be higher in Q-4 2021-22 over Q-4 2020-21.
- ⇒ All the respondents reported a rise in the cost of production. This has been attributed majorly to the increase in raw material prices especially certain chemicals. Increase in labor cost, freight charges and logistics cost have also been major factors in pushing up the costs.
- ⇒ 66% of the respondents were maintaining the average inventory levels in Q-4 2021-22. Only 33% of the respondents expect higher than average inventory levels in the Q-1 2022-23.
- ⇒ According to the respondents in footwear sector, around 60% of operations are taking place in factories/facilities.
- ⇒ 66% of the respondents reported that they are facing shortage of labor force presently with trained workforce scarcity posing a constraint.
- ⇒ On a positive note, all the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 7.25% p.a. and around a third of the respondents reported insufficient availability of funds due to reluctance of banks to lend.

⇒ Respondents in the footwear sector mentioned that they are following COVID protocols and SOPs mentioned by the government and are ensuring vaccination of all their employees and workers to contain the spread of the disease.

⇒ The respondents expect manufacturing growth to revive in around six to nine months. Following measures were suggested to boost growth of manufacturing:

- Easy availability of funds for the industry to support their operational expenses.
- Support for indigenization of footwear materials which currently are mostly based on western designs, R&D initiatives for Indian manufacturers related to product and material technology.

⇒ Credit and finance availability, lack of domestic demand, untrained labour and unavailability of raw materials are some of the major constraints affecting growth of this sector.

Machine Tools

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Strong	Positive	Average level	Moderate	Moderate

⇒ About 57% of the respondents expect higher production levels in the Q1 April-June 2022-23. The order books show that over 57% of the respondents expect orders in Q1 2022-23 to be higher or same than those in Q4 2021-22.

⇒ On an average, the sector is utilizing about 75% of its capacity. Among all the respondents, 86% are operating at a higher capacity as compared to that of previous year. Not more than 43% of the respondents in this quarter are planning to make investments and add capacity in next six months due to reasons such as lack of availability of skilled manpower and high raw material costs.

⇒ On the exports front, 71% of the respondents reported their exports to be higher in Q4 2021-22 over Q4 2020-21. On average the exports increased by 9% for the industry. Approximately 43% of the respondents expect exports to further increase in Q1 2022-23.

⇒ All the respondents reported a rise in the cost of production. This has been attributed majorly to the increase in raw material prices especially of ferrous and non-ferrous materials. In addition, there has been increase in labor cost, freight charges and logistics cost.

⇒ All the respondents reported same or more than average inventory levels in Q4 2021-22. For Q1 2022-23, 85% of the respondents expect same or more than average inventory levels.

⇒ According to the respondents in machine tools sector, around 90% of operations are taking place in factories/facilities.

⇒ 70% of the respondents reported that they are not facing any shortage of labor force presently.

⇒ On a positive note, 57% of the respondents are planning to hire additional workforce in the near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.7% p.a. and 71% respondents reported sufficient availability of funds.

⇒ Sector respondents believe that overall manufacturing sector would revive in next three to six months. Industry suggested the following for acceleration of sector's growth:

- Support from the government to the industry, credit support, swift implementation of PLI scheme, GST rate modification and rationalization, inflation control and providing logistics support.
- Ensuring easy availability of low-cost finance and development of programmes for skilling of labour.

⇒ Insufficient availability and high prices of raw materials such as steel and components, supply chain disruptions, reduced domestic demand and consignments stuck at ports are some of the major constraints restricting the sector's growth.

Metal and Metal Products

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate	Moderate	Average and slightly above	Bleak	Moderate

⇒ About 46% of the respondents had higher production, while 38% of them witnessed a decline in the Q-4 Jan-Mar 2021-22 vis-à-vis the same quarter a year ago. Of all the respondents, around 31% expect higher levels of production in Q-1 April-June 2022-23. The order books show that about 77% of the respondents expect orders in Q-1 2022-23 to be higher or same than those in Q-4 2021-22.

⇒ On an average, the sector is utilizing about 75% of its capacity. Among all the respondents, 54% are operating at a higher capacity and a little over 30% are operating at the same level compared to that of previous year. Over a third i.e., 38% of the respondents in this quarter are planning to make investments and add capacity in the next six months.

⇒ On the exports front, about 39% of the respondents reported their exports to be higher in Q4 2021-22 over Q4 2020-21. On average the exports increased by 18% for the industry. About 54% of the respondents expect their exports to increase by 12.8% in Q1 2022-23.

⇒ Cost of production increased for over 92% of the respondents due to increase in fuel price and thereby logistics cost, increase in price of inputs such as copper, plastic, paper, enamels, steel and M.S Scraps and weakening of Indian currency.

⇒ While 23% of the respondents were maintaining more than average inventory levels in Q-4 2020-21, 61% of the respondents were maintaining the average inventory levels. In the Metals and Metal Products industry, around 84% of the respondents expect either higher or similar to average level inventory in the Q-1 2022-23.

⇒ According to the respondents in this sector, around 98% operations are taking place in factories/facilities.

⇒ 85% of the respondents reported that they are not facing any shortage of labor force currently.

⇒ On a positive note, 30% of the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.47% p.a. and 85% of the respondents reported sufficient availability of funds.

⇒ Respondents in metal sector mentioned that they are using sanitizer and masks regularly, ensuring full vaccination of employees, their families and contract workers. They are strictly following COVID protocols to minimize the impact of third wave by closely monitoring the new developments.

⇒ Majority of the respondents indicated that domestic demand would revive in another three to six months' time frame. Industry suggested the following for acceleration of sector's growth:

- Support from the government to the industry, credit support, swift implementation of PLI scheme, GST rate modification and rationalization, inflation control and providing logistics support.
- More credit availability to the sector, increase in Government spending on infrastructure, reduction in compliances for MSME sector thereby enhancing Ease & Cost of Doing Business.
- Reduce imports through localization program and promote Make in India initiative.

⇒ Most of the respondents felt that insufficient availability of raw materials, high cost of credit & finance, low domestic demand and absence of robust supply chain mechanisms are major constraints for the industry's growth at present.

Paper

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Moderate	Positive	Average level	Bleak	Bleak

⇒ All the respondents had higher production in the Q-4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and over half of the respondents expect this trend to continue in the Q-1 April-June 2022-23. The order books shows that 50% of the respondents expect orders in Q-1 2022-23 to be higher than those in Q-4 2021-22.

⇒ On an average, the sector is utilizing about 95% of its capacity, higher than the capacity utilization last year.

⇒ On the exports front, all the respondents reported their exports to be higher in Q-4 2021-22 over Q-4 2020-21. On average the exports increased by 20% for the industry. Half of the respondents expect their exports to be same in Q1 2022-23 as compared to the previous quarter.

⇒ 50% of the respondents have reported increase in cost of production as a percentage of sales for the sector due to increase in prices of raw materials and their limited availability.

⇒ Half of the respondents were maintaining average inventory levels in Q-4 2020-21. However, they expect less than average inventory levels in the Q-1 2022-23 due to reopening of schools and offices post removal of lockdown restrictions and expansion in e-commerce sector giving rise to demand for paper and paperboard packaging material.

⇒ According to the respondents in this sector, around 98% of operations are taking place in factories/facilities.

⇒ The respondents reported that they are not facing any shortage of labor force.

⇒ On a positive note, half of the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.15% p.a. and all the respondents reported sufficient availability of funds.

⇒ In order to contain spread of the virus, respondents in the paper products sector are enforcing COVID appropriate behavior, ensuring full vaccination of all the employees and their family members.

⇒ Sector respondents believe that overall manufacturing sector would revive in next three or six months. The industry has suggested the following steps to revive the growth of manufacturing sector:

- Lowering of income tax rate to revive domestic demand and need for policies to increase employment opportunities.
- Direct income transfers to the bottom of the pyramid.
- Extension of LTC cash voucher scheme with softer terms.

⇒ Low domestic demand, supply chain bottlenecks and export issues are significant constraint for the sector which are restricting its growth. Other constraints being faced by the sector is the limited availability of raw material and competition from imports.

Textiles

Quarterly Outlook for the sector at a glance

Production	Exports	Inventory	Investment for Expansion	Hiring
Strong	Positive	Same or More than Average inventory level	Positive	Bleak

⇒ About 44% of the respondents had higher production and 28% had similar levels of production in the Q-4 Jan-Mar 2021-22 vis-à-vis the same quarter a year ago. Over 45% of the respondents expect a higher level of production in the Q-1 April-June 2022-23. This trend is also reflected in the order books which shows that over 72% of the respondents expect orders in Q-1 2022-23 to be higher or same than those in Q-4 2021-22.

⇒ On an average, the sector is utilizing about 85% of its capacity, little higher than the capacity utilization in previous quarter which was 80%. Among all the respondents, around 55% are operating at a higher capacity and a little over 27% are operating at the same level compared to that of previous year. Positively, 44% of the respondents in this quarter are planning to make investments and add capacity in the next six months.

⇒ On the exports front, 55% of the respondents expect their exports to increase in Q1 2022-23 by an average of 21%. Over 61% of the respondents reported their exports to be higher in Q-4 2021-22 over Q-4 2020-21.

⇒ Around 78% of the respondents reported a rise in the cost of production. This has been attributed majorly to increasing cost of raw materials such as coal, dyes, chemicals, spare parts, cotton and packing material along with escalation in labour charges. In addition, freight rates have increased and there has been uncertainty in freight movement.

⇒ All the respondents reported on maintaining either same or more than average inventory levels in Q4 2021-22. The respondents expect higher than average inventory levels in Q-1 2022-23.

⇒ According to the respondents in the sector, around 86% operations are taking place in textiles factories/facilities.

⇒ 71% of the respondents reported that they are not facing any shortage of labor force presently. A few of the respondents who are facing shortage have complained of lack of skilling of labour and workers not willing to work in manufacturing as some of the reasons for the same.

⇒ Only 23% of the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.35% p.a. and all the respondents reported sufficient availability of funds.

⇒ Respondents of textiles sector mentioned that their companies have undertaken a mass level vaccination plan for its staff and workers including their families. They are providing proper sanitizing facilities, maintaining social distancing, carrying out periodic antigen/RT-PCR test of employees, random health check-up of employees and workers in factories, and observing COVID appropriate behavior.

⇒ The growth rate of manufacturing sector is likely to revive in next six months as per the survey respondents. The industry has suggested the following for reviving growth:

- Availability of working capital to sustain the industry, swift implementation of PLI incentive scheme, check imports of jute products from Bangladesh, improve export competitiveness by entering into FTAs with the countries like USA, Europe, Japan, a cascading import duty structure and address the volatility in exchange rate.
- Efforts needed to increase the disposable income to stimulate consumer demand, support for increasing textile products demand, GST refund and uniform GST structure for the textile industry and control the rising prices of diesel and petrol.
- Need for creating employment generation opportunities, infrastructure upgradation through new investment, boost financial assistance to MSMEs and provide necessary incentives to increase exports.
- Ensuring the availability of containers at reasonable rates and reduce the transaction costs (such as power cost, logistics cost, etc.). Infrastructural up-gradation (Rail / Road network from Manufacturer to port / customer).

⇒ Availability of raw materials, supply chain disruptions, and low domestic demand are reportedly some of the significant constraints for the sector which are restricting its growth. Consignments stuck at ports, availability of finance, export related issues are other constraints which are being faced by the sector.

Toys

Quarterly Outlook for the Sector at a Glance

Production	Exports	Inventory	Hiring
Moderate	Positive	Average level	Moderate

⇒ About 50% of the respondents had higher production in the Q-4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and similar percentage expect higher production levels in the Q-1 April-June 2022-23. This trend is also reflected in the order books which show that over 90% of the respondents expect orders in Q-1 2022-23 to be higher or same than those in Q-4 2021-22.

⇒ On an average, the sector is utilizing about 70% of its capacity. Among all the respondents, 50% are operating at a higher capacity.

⇒ On the exports front, over 87% of the respondents reported their exports to be higher in Q-4 2021-22 over Q-4 2020-21. On average the exports increased by 25% for the industry. All the respondents expect exports to increase by an average of 7.5% in Q1 2022-23 as compared to the previous quarter.

⇒ All the respondents reported a rise in the cost of production. This has been attributed to increase in the cost of raw materials, increased QCO mandates, increase in the petrol & diesel prices leading to increase in the logistics cost.

⇒ All the respondents were maintaining average or more than average inventory levels in Q-4 2021-22 and half of the respondents expect inventory levels to be more than average in the Q-1 2022-23.

⇒ According to the respondents in toys sector, around 75% of operations are taking place in factories/facilities.

⇒ Most of the respondents reported that they are facing shortage of skilled labor force due to higher attrition of workers to other companies after training. They are requesting government to build capacities and introduce training programs to skill the labour force as per requirements of the industry.

⇒ 50% of the respondents are planning to hire additional workforce in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate close to 8.5% p.a. and some of the respondents reported insufficient availability of funds.

⇒ The respondents expect manufacturing growth to revive in next six months. Following are some proposals for revival of growth in the sector:

- Availability of funds from banks at nominal rates.
- The resolution of supply related issues, tax rate revision to boost domestic demand and reduction in raw material prices.
- Easing of QCO compliances.
- Single window application and grievance related system should be introduced instead of involvement of multiple government departments, making it difficult to avail benefits.
- Make raw materials such as PVC domestically available in sufficient quantity and competitive price, in order to reduce import dependency.

⇒ Supply chain constraints, lack of domestic and export demand, logistical obstacles, unavailability of skilled labour and high duties on raw materials with lack of substitutes in domestic market are some of the significant constraints faced by the sector.

Tyre

Quarterly Outlook for the Sector at a Glance

Production	**Inventory**	**Exports**	**Investments for Expansion**
Strong	Higher than Average level	Positive	Bleak

⇒ All of the respondents witnessed higher production in Q-4 Jan-Mar 2021-22 vis-à-vis the same quarter a year ago and they expect this trend to continue in Q-1 April-June 2022-23. This trend is also reflected in their order books which show that 90% of the respondents expect orders in Q-1 2022-23 to be higher or same than those in Q-4 2021-22.

⇒ On an average, the sector is utilizing about 80% of its capacity. None of the respondents in this quarter are planning to make investments and add capacity in next six months due to under-utilization of the existing capacity.

⇒ On the exports front, the respondents reported their exports to be higher in Q-4 2021-22 as compared to the same quarter in 2020-21. They further expect their exports in Q-1 2022-23 to be 6 to 8% higher.

⇒ All the respondents reported an increase in the cost of production for them. Increase in the raw materials and logistics cost were the main reasons driving up the cost for the sector.

⇒ Some of the respondents were maintaining more than average inventory levels in Q-4 2021-22. Most of the respondents expect more than average inventory levels in the Q-1 2022-23 due to decline in OE demand.

⇒ According to the respondents in Tyre industry, around 97% of operations are taking place in factories/facilities.

⇒ 90% of the respondents reported that they are not facing any shortage of labor force.

⇒ None of the respondents are planning to hire additional workforce in near future.

⇒ To check the spread of fourth wave, respondents in this sector are encouraging vaccination and adherence to social distancing norms.

⇒ The respondents expect growth of manufacturing to revive in next three months. Following is proposed for revival of growth in the sector:

- Inclusion of the tyre industry in the PLI scheme.
- Addressing container shortage and high freight rates.
- Reduction in rate of GST on 2 and 3 Wheeler tyres from 28% to 18% will help push the demand and manufacturing of 2Ws/3Ws.
- Encourage public and private investments in the economy.

⇒ Firms in this sector are significantly constrained by unavailability of raw material and consignments being stuck at port. Other constraints hampering the growth of the sector, as identified by the respondents, include lack of domestic demand, supply-chain disruptions and lack of credit and finance availability.

Miscellaneous

Quarterly Outlook for the Sector at a Glance

Production	Inventory	Investments for Expansion	Hiring
Moderate	Average level	moderate	Positive

- ⇒ Half of the respondents had higher production in the Q4 Jan-Mar 2021-22 quarter vis-à-vis the same quarter a year ago and all the respondents expect this trend to continue in the Q1 April-June 2022-23. This trend is also reflected in the order books which show that almost all the respondents expect orders in Q1 2022-23 to be same as those in Q4 2021-22.
- ⇒ On an average, the industries under this category are utilizing approximately 95% of their capacity, which is greater than last year. None of the respondents are planning to make new investments and *expanding* capacity in next six months due to factors such as reduced cash flows, rising raw material costs and other supply chain constraints.
- ⇒ On the exports front, over 50% of the respondents reported their exports to be higher in Q4 2021-22 over Q4 2020-21. Furthermore, all the respondents expect exports to increase by 12.5% on an average in Q1 2022-23.
- ⇒ All the respondents reported a rise in the cost of production. This has been attributed majorly to the increase in raw material prices, increase in labor cost, freight charges, logistics cost and customer behaviour uncertainty.
- ⇒ All the respondents were maintaining either same or more than average inventory levels in Q4 2021-22. More than half of the respondents expect higher than average inventory levels in the Q1 April-June 2022-23 due to improved demand conditions.
- ⇒ According to the respondents around 100% of operations is taking place in factories/facilities.
- ⇒ 75% of the respondents reported that they are not facing any shortage of labor force presently. However, some respondents have reported inadequate availability of skilled manpower.
- ⇒ All respondents are planning to expand workforce by 5% to 10% in near future.

⇒ On an average, the industry reported to be availing credit at an interest rate of approximately 10.82% p.a., with half of the respondents complaining of insufficient funds from banks.

⇒ To check the spread of third wave, respondents in this sector are encouraging 100% vaccination of employees and their family members, following COVID protocols, maintaining hygiene.

⇒ The respondents expect growth of manufacturing to revive in next three to six months. Following is proposed for revival of growth in the sector:

- Need to control the increase in prices of raw materials (such as certain chemicals, metals), fuel and freight.
- Announcement of new economic stimulus package and revival of manufacturing sector through duty or tariff cut.
- Introducing demand inducing measures, ensure uninterrupted power supply and skilling of labour.

⇒ Firms in this sector are significantly constrained by unavailability and high prices of raw material, supply-chain disruptions, lack of domestic demand and limited credit and finance availability.