Contents

India Manufacturing Barometer 2014
Turning the corner

94%
describe themselves as somewhat or very optimistic about the Indian economy

55%
are planning a major investment

35%
plan to add full-time equivalent employees

37%
said margins have increased in the last six months

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Foreword

The Indian manufacturing sector is facing challenging times. While recovery remains fragile, there was a further fall in growth in 2013-14 ***(0.7%)*** and a meagre growth of 2% witnessed in April-September 2014-15 vis-à-vis 2013-14. In order to achieve the targets set in the National Manufacturing Policy and to make the sector contribute 25% of our GDP, the government needs to introduce reforms in a number of areas and especially in improving the regulatory business environment in India.

With manufacturing identified as the focus area by Prime Minister Narendra Modi in the *Make in India* initiative, I am hopeful this will help us achieve double-digit growth in manufacturing and much-needed jobs for our growing labour force. There are signs of turnaround also, with the OECD recently predicting a growth of more than 6% for the economy in the next two years. We need the competitiveness of our industry to be at the core of policy so that we can supply to the domestic market and export to the world and be an integral part of the global value chain.

The survey conducted by FICCI and PwC for the *Manufacturing Barometer* ***2014*** has brought out key challenges facing the sector in the current macro-economic scenario and also the expectations of manufacturers for the next 10 to 12 months.

I hope this report will help address and prioritise the issues concerning manufacturing in the short term as well as long term. I compliment PwC India and the Manufacturing team at FICCI for collaborating for the second edition of the ***India*** *Manufacturing Barometer* report.

A Didar Singh
Secretary General, FICCI

Preface

It gives me great pleasure to continue our association with FICCI in the manufacturing sector, through the second edition of the *India Manufacturing Barometer*.

The Indian manufacturing sector faces a defining moment in its evolutionary path. The global economy is emerging from an extended period of sluggish performance, and growth rates across several major economies are expected to improve. A new government has taken charge in India with an unambiguous mandate for development. It has stated its intention to attract manufacturing sector investment through its *Make in India* campaign.

With costs on the rise in global manufacturing hubs such as China, there is perhaps an unparalleled opportunity for India to step into the breach and capture a significant share of the global manufacturing pie. Yet, the road ahead is not without challenges. India scores poorly on the indices of ease of doing business and corruption, infrastructure is poor in comparison with most other competing economies, and complex regulations related to land acquisition, labour and taxation can increase the cost of manufacturing in India.

Eliminating these obstacles is critical to unleashing the potential of India's manufacturing sector. The *India Manufacturing Barometer* is an attempt to take a peek at the viewpoints of business leaders across the manufacturing sector at this critical juncture. Our study finds that business leaders are far more optimistic than they were last year. With a more conducive economic and political environment, more than half expect double-digit growth over the next 12 months, and plan to make significant investments during this period. While nearly half the companies surveyed expect margins to improve, most are not planning to increase workforce, planning instead to invest in new products, capacity additions and market expansion.

Concerns related to raw material costs and energy costs persist though domestic demand is less of a worry than last year. Business leaders are looking to the government to rationalise taxes and duties and to invest in infrastructure improvement.

I offer my sincere thanks to the CXOs who participated in this survey, for giving us their valuable time and providing us the benefit of their insight.

I hope you find this report interesting and useful read and look forward to any suggestions you may have.

Bimal Tanna
Leader, Industrial Products
PwC India

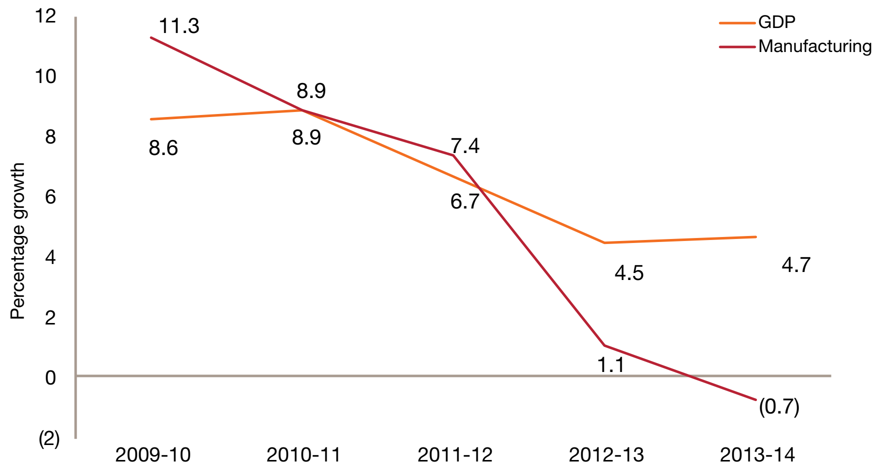
The hard facts

The picture was grim at the start of the current financial year.

Growth in the manufacturing sector had fallen to a negative 0.7%[1] in FY14, significantly below its five-year average of 5.6%. A reduction in spending by the government as it strove to meet fiscal consolidation objectives, hurdles in the implementation of ongoing projects, and a postponement of investment by the private sector due to an uncertain economic and political environment appeared to bode ill for the sector in India. The share of the sector, in GDP, had declined from 15.8% in FY13 to 14.9% in FY14[2].

Additionally, in the last couple of years, slowdown in construction activity resulted in capacity underutilisation in the steel and cement sectors. Besides, there had been a contraction in mining activities.

State of the economy



Source: The Economic Survey 2013-14

Quarterly estimate of GDP at constant prices (2004-05)

	GDP growth	Manufacturing growth
April-June 2014	5.7%	3.5%
July-September 2014	5.3%	0.1%

Source: Central Statistics Office

1. and 2. The Economic Survey 2013-14

Yet hope abounds

Despite somewhat sluggish economic growth, business leaders are optimistic. A decisive mandate to a development-oriented government, easing of the global economic scenario, and the announcement of intent by the new government to facilitate new investments through its *Make in India* campaign and remove obstacles to business performance have all served to bring in more optimism. Business leaders surveyed for the *Manufacturing Barometer 2014* now believe that the new government will provide the necessary boost to GDP as also the manufacturing sector.

Big push from the government and private sectors

The government's *Make in India* campaign aimed at facilitating investments, encouraging innovation and building high-class manufacturing infrastructure is expected to boost manufacturing activities in key sectors including automobile, auto components, electronics and electricals, capital goods, railways, aerospace and defence. E-auctioning of coal blocks, curtailment of the discretionary powers of labour inspectors and implementation of a single-window compliance process on labour related issues and implementation of the Goods and Services Tax(GST), as promised by the current government will go some way in accelerating growth in the manufacturing sector and improving the likelihood of our achieving the National Manufacturing Policy (NMP) targets.

Private sector investments, driven by improved market conditions and a more positive sentiment, along with critical policy reforms and the removal of infrastructural bottlenecks as highlighted in the Economic Survey 2013-14 are needed to propel growth in the manufacturing sector and bring about a revival. The *Manufacturing Barometer 2014* provides an indication of the current sentiment of business leaders from the sector, the factors they perceive will impact their businesses over the next few months and the strategies they expect to employ in order to address them.

Optimism over the economic climate

While views about the global economy appear to be driven by weak economic conditions in the Eurozone and the slowing of GDP growth in China, the companies surveyed were more positive about the Indian economy.

Going forward, there is more consistency in forecast for the next 12 months for the world as well as Indian economy. This optimism signifies a rebounding of the GDP growth after two years of sub-5% growth. For the next 12 months, most of the respondents expect the Indian economy to grow by 5 to 6%.

> ***"The new government's initiatives in projects and activities are expected to boost the industry and drive economic growth."***
>
> Saurabh S Dhanorkar, MD, Finolex Industries Limited

> ***"I am optimistic about the Indian economy as inflation is showing a downward trend, oil prices have moderated and fiscal and current account deficits are likely to be lower than in earlier years."***
>
> Jai Hari Dalmia, Director, Dalmia Cement (Bharat Ltd)

World economic growth

Significant economic growth	0%
Moderate economic growth	53%
No noticeable change	46%
Moderate economic decline	1%
Significant economic decline	0%

India economic growth

Significant economic growth	6%
Moderate economic growth	75%
No noticeable change	19%
Moderate economic decline	0%
Significant economic decline	0%

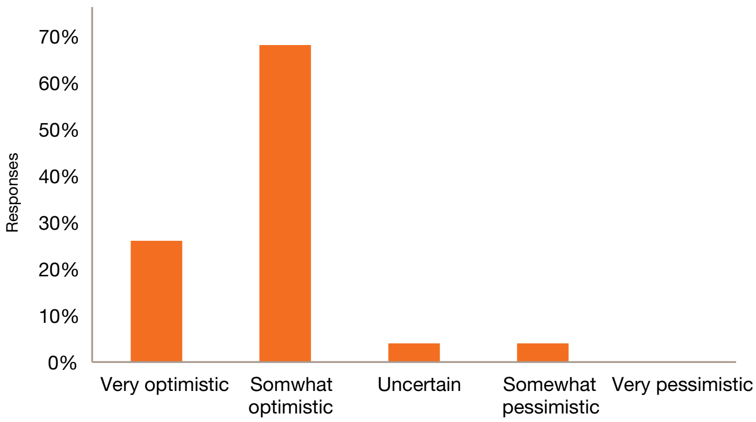
Source: India Manufacturing Barometer Survey, November 2014

GDP growth projections for 2015

India	6.4%
World	3.8%

Source: World Economic Outlook, IMF

Prospects about the Indian economy, next 12 months



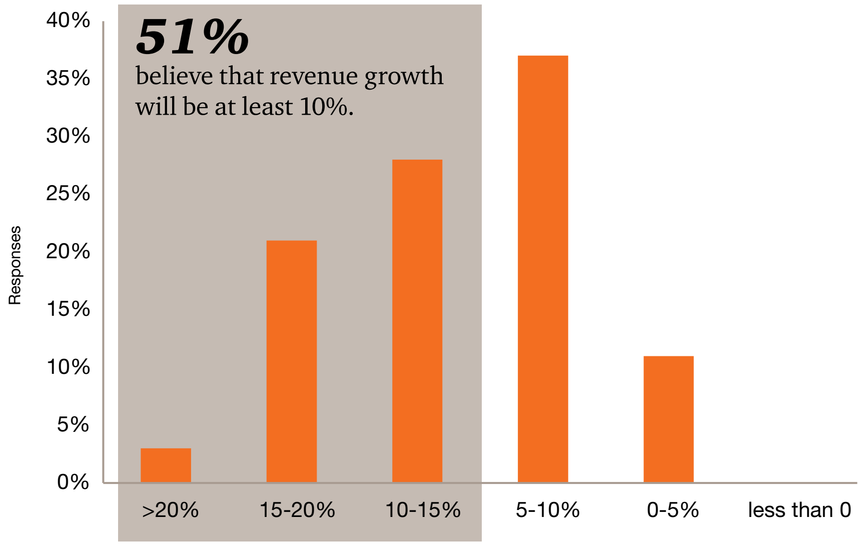
Source: India Manufacturing Barometer Survey, November 2014

Industry on an upturn

Almost half the respondents (48%) say their businesses are growing faster than the average for their industry segment. Over the next 12 months, 40% estimate their respective industry's growth to fall between 7 to 10%.

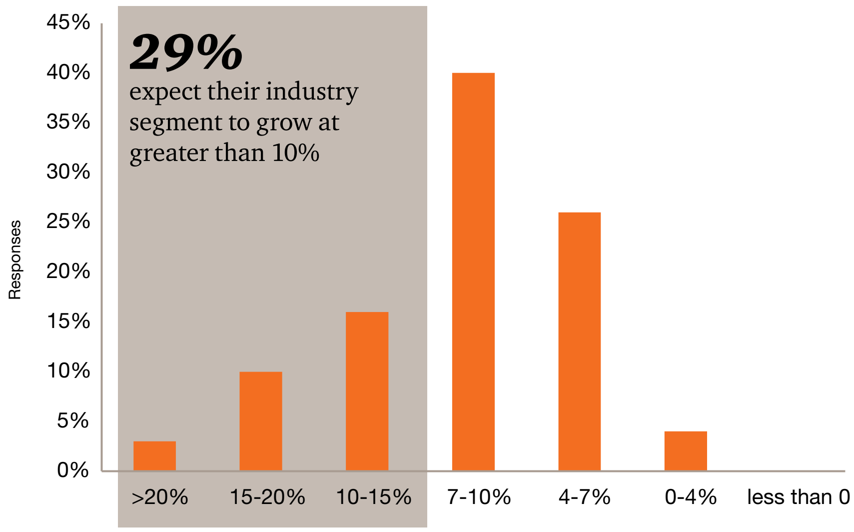
To add to the positive sentiment, none of the companies surveyed this year expect any decline in revenues in their industry as against 20% who had expected a decline in our survey last year.

Estimated revenue growth (own business), next 12 months



Source: India Manufacturing Barometer Survey, November 2014

Estimated revenue growth (industry), next 12 months



Source: India Manufacturing Barometer Survey, November 2014

Managing reasonable margins kept their hopes high

Despite the economic slowdown, a larger number of companies have been able to maintain reasonable margins in their respective businesses. This trend somewhat bolsters the findings of our earlier survey. In the *Manufacturing Barometer 2013*, over half the respondents had stated that margins will improve over the next 12 months.

A larger number of companies could keep prices up; although costs were higher too

More than half the respondents (56%) said they managed to keep prices of goods up. Around 61% respondents said their costs in the last six months increased. The impact of reducing energy and commodity prices does not appear to have been felt yet by the manufacturing sector.

According to the *Manufacturing Barometer 2013*, 58% respondents saw an increase in cost and only 20% said they witnessed price increase.

Finished inventories remained steady for nearly half the respondents.

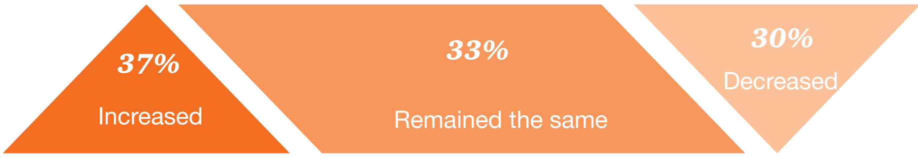
This is an improvement from last year, when 43% of companies interviewed said their inventories had increased. The steadying of inventory levels are a result of manufacturers having restructured their operations to address weaker demand conditions of the last two years. The fact that inventory levels reduced for only a fifth of the respondents indicates that demand has not yet picked up for most businesses.

Idle capacity does not appear to be a problem being faced by Indian manufacturers presently. Over 85% of businesses indicated that they were operating at about three quarters of their capacity or higher.

Increased international sales

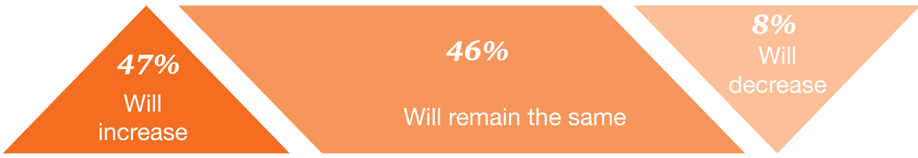
With domestic demand being sluggish, manufacturers had told us last year that they were focussed on increasing international sales. It appears their efforts have borne fruit—53% of the respondents this year said they had increased international sales.

Gross margins in past 6 months



Source: India Manufacturing Barometer Survey, November 2014

Margin expectations over next 12 months



Source: India Manufacturing Barometer Survey, November 2014

Change in selling prices

Up	56%
Down	18%
Stayed the same	26%

Change in cost

Up	61%
Down	15%
Stayed the same	24%

Source: India Manufacturing Barometer Survey, November 2014

Change in finished inventories

Up	27%
Down	20%
Stayed the same	53%

Operating capacity

Near or full capacity	54%
About 75% capacity	33%
About half the capacity	13%

Source: India Manufacturing Barometer Survey, November 2014

> ***"Lately, the ports have been congested due to which we are unable to meet delivery timelines."***
>
> N Nambi Rajan, Chief Financial Officer, Thirumalai Chemicals Ltd

Future path: A mixed bag

Employment remains flat; only a third to add staff

Despite being optimistic about revenue and margin expansion, more than half the companies surveyed indicated that they had no specific hiring plans over the next year. The good news, however, is that there are no significant downsizing plans either. Only 10% of the respondents said they plan to reduce the number of fulltime employees during this period compared to 21% last year.

Fulltime employees

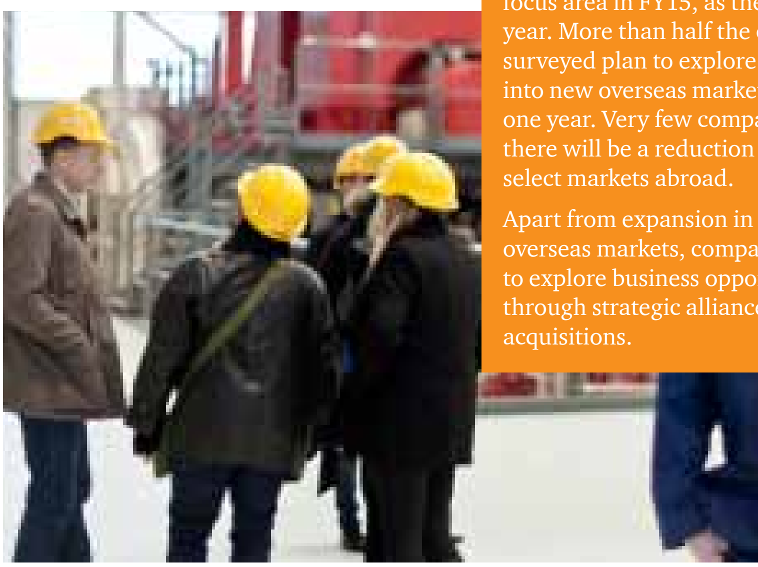
Stay the same	55%
Add	35%
Reduce	10%

Source: India Manufacturing Barometer Survey, November 2014

Technical, professional workers to dominate hiring

Those wanting to increase staffing levels have given preference to hiring professionals or technicians (73%) followed by skilled workers (59%). This may provide re-employment opportunities to retired employees at senior levels.

The fact that nearly half the businesses surveyed plan capacity additions in the next one year is a positive sign for the manufacturing sector, although there is still some unutilised capacity. Investments in building or enhancing capacity will drive demand for construction services as well as cement, steel and capital goods.



Planning for ...

Capacity additions	49%
Major investments	55%

Source: India Manufacturing Barometer Survey, November 2014

Investment to boost growth

With the economy expected to turn the corner, companies are positive in their outlook towards investment.

To improve their production frontiers, companies plan to invest in research and development (R&D) introducing new products and services, facilities expansion and geographical expansion.

Top 3 areas of investment

R&D	50%
New products or service introduction	49%
Facilities expansion	45%

Source: India Manufacturing Barometer Survey, November 2014

Investment in foreign markets and alliances and acquisitions expected to drive growth

Foreign markets continue to be a focus area in FY15, as they were last year. More than half the companies' surveyed plan to explore expansion into new overseas markets in the next one year. Very few companies said there will be a reduction of activity in select markets abroad.

Apart from expansion in new overseas markets, companies expect to explore business opportunities through strategic alliances and acquisitions.

Major bottlenecks

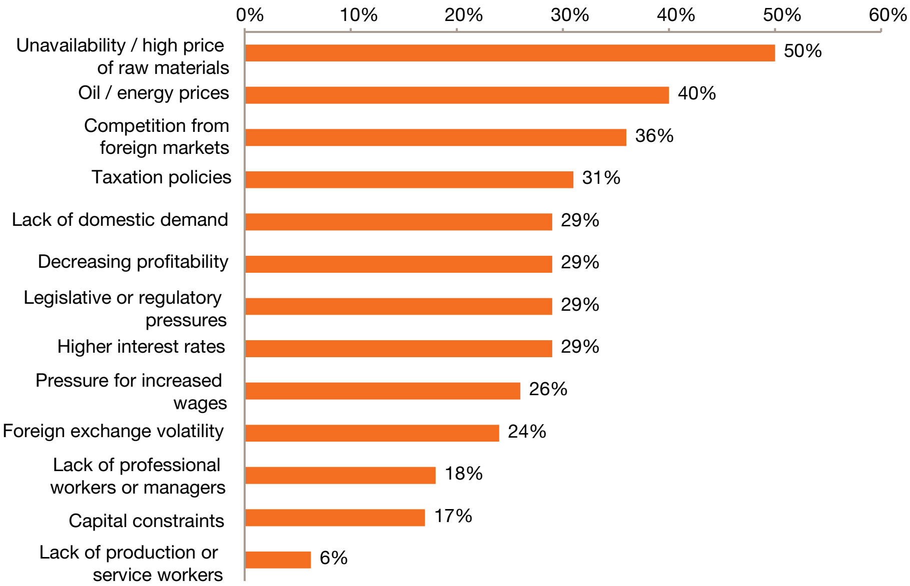
While last year, the top two likely concerns for industry were higher interest rates and lack of domestic demand, the companies surveyed this year expect unavailability or high price of raw materials and energy prices to be the major barriers in the next 12 months.

Some respite is expected for the manufacturing sector with crude prices declining 20% in the last two months.

Commodity prices too have softened slightly which is likely to bring down the cost of inputs in some industry segments.

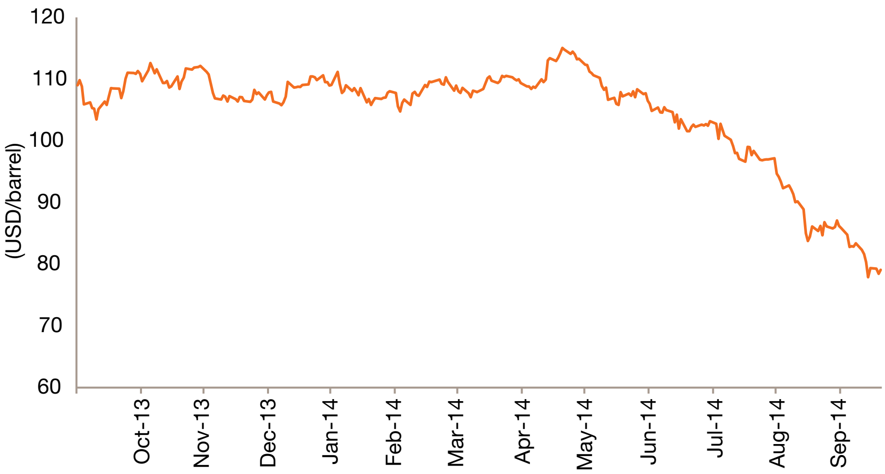
We are hopeful that the recent correction in crude and commodity prices is likely to bring some cheer to the industry and enable it to boost production levels and improve profitability.

High price and unavailability of raw materials to affect the most.



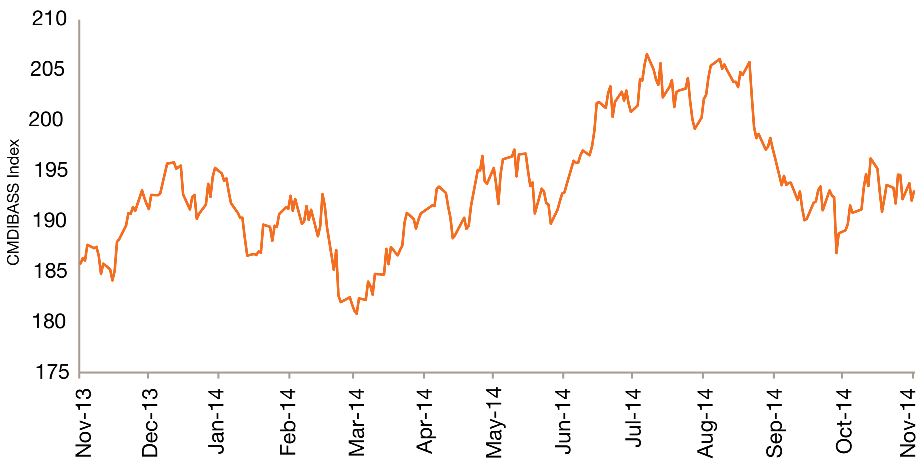
Source: India Manufacturing Barometer Survey, November 2014

Global crude prices easing off



Source: Bloomberg

Bloomberg base metals spot prices commodity index



Source: Bloomberg

"We are looking at value addition in terms of product innovation and cost reduction to further strengthen our international competitiveness."

Sanjay Syal,
Chief Financial Officer,
Indo Rama Synthetics (India)

"The government needs to reduce taxes and should increase transparency in governance."

Amit Mahipal Gupta, Chief Executive Officer, Autolite Ltd

Indian manufacturing: Attaining global competitiveness

With the launch of the *Make in India* campaign, and its stated intention of eliminating obstacles in areas such as land acquisition, infrastructure bottlenecks, labour regulation, licensing and taxation, the Indian government has set a clear objective of enabling India to become a global manufacturing hub in the years ahead. Achieving this objective will not be easy, and it is important to understand the challenges being faced by Indian manufacturing businesses as they globalise their operations and face up to international competition.

Global market trends are important to most manufacturers—five out of every six companies we surveyed said they imported some of their raw materials.

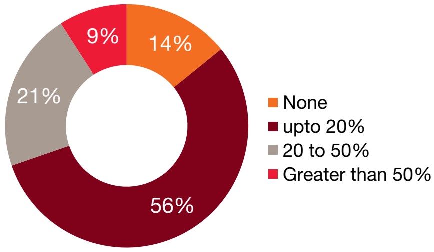
Manufactured materials, components and specialised inputs (such as specialised chemicals and additives) comprise a large chunk of imports by the businesses surveyed, whereas finished products and manufactured inputs dominate exports.

For most of the businesses surveyed, revenues from exports were on the rise. The Middle East and North Africa region forms the most attractive export market for Indian businesses, followed by Europe. Finished products, by far, comprised the most important export product.

High raw material costs, poor quality perception of Indian products and limited access to R&D and technology are key challenges identified by Indian manufacturers in the context of their exports.

> ***"The government needs to increase export benefits in order to promote more exports."***
>
> Pradeep Kher, Vice President, Marketing, Birla Century

Exports as a % of revenue



Source: India Manufacturing Barometer Survey, November 2014

Top 3 markets for future growth

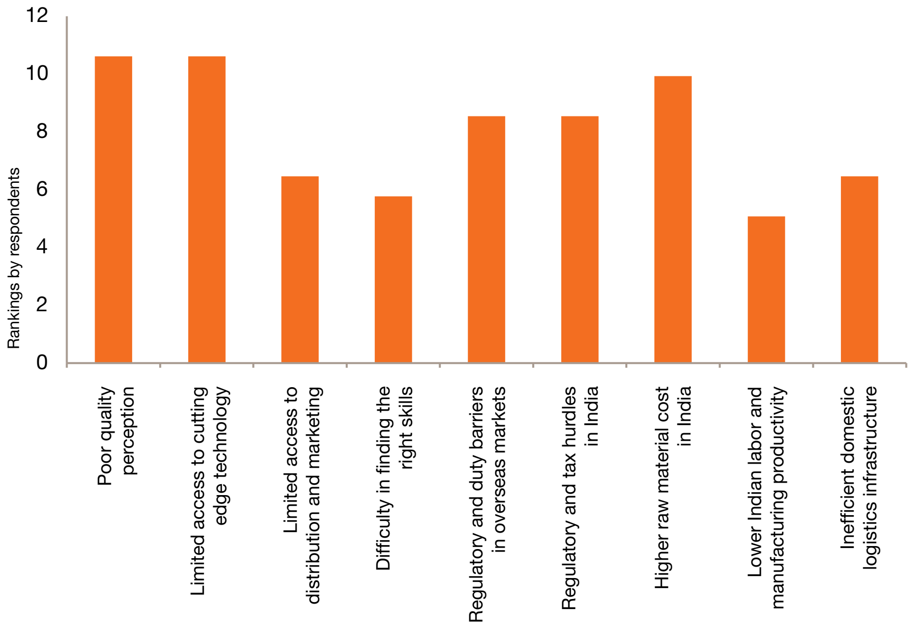
Manufacturers looking for support from the government

Indian manufacturers said they are looking for the government to simplify export import (EXIM) policies and related documentation, and to facilitate access to low-cost finance for exporters. Rationalisation of the tax structure and implementation of GST will, they believe, help improve the competitiveness of Indian manufacturers. Modification of land acquisition rules, speedier clearances and licensing, and amendments to labour laws are factors they believe will facilitate investments by manufacturers in setting up operations of global scale and competitiveness. Some manufacturers were also looking for the government to take a critical look at free trade agreements (FTAs), as the agreements for certain target markets are unfavourable to Indian exporters as compared to other countries.

Investment in R&D, product development and branding to help fight these challenges

To improve competitiveness of their operations, companies have been investing in product development, R&D, brand, distribution channels and marketing.

Challenges in growing international business



> ***"Our logistics costs are more as compared to China and Korea. China has size and scale, while we are more innovative and efficient."***
>
> S Parthasarathy, Chief Executive Officer, Rane (Madras) Ltd

Key comparisons: India and US

Planning to hire

Planning major investments

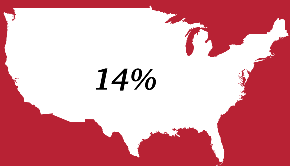
Plan expenditure in

R&D

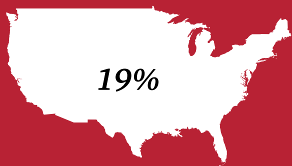
New products or service introduction

Key future business activities

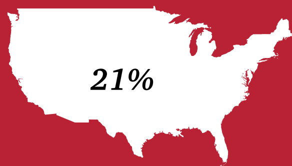
Expansion to new markets abroad



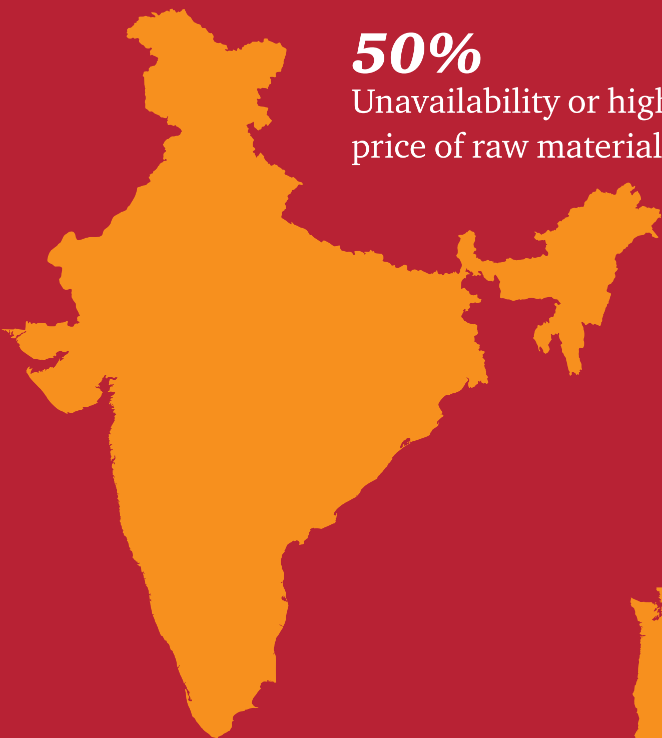
Acquisition of a business



Start at least one new strategic alliance or JV



Expected barriers to growth(India)



50%
Unavailability or high price of raw materials

40%
Oil or energy prices

36%
Competition from foreign markets

Expected barriers to growth(US)

59%
Legislative/ regulatory pressures

43%
Lack of demand

25%
Taxation policies

Source: India Manufacturing Barometer Survey, November 2014 and PwC US Manufacturing Barometer: Business outlook report, October 2014

Summary

While the economy seems to be looking up, companies are still treading carefully. Although they are focussing on R&D and product innovations for growth, they are cautious about future investments. More than half of the companies surveyed have no specific hiring plans for fulltime and equivalent employees (including contractors) over the next one year.

Nonetheless, they are positive on the investment front with over half the companies surveyed having concrete investment plans for the next year. The future, according to respondents, is brighter today with the economy expected to grow in the 5 to 6% range and the new government promising to provide the much-needed impetus to the manufacturing sector through a wide range of policy changes.

In our view, a series of short, medium and long term measures will help take the manufacturing sector to the next level of growth. In the short run, the government needs to streamline regulatory processes and take meaningful confidence-building measures for investors. In the medium term, it needs to set best business practices in line with international ones, besides focussing on the necessary legislative changes. A beginning has already been made by the government through a number of measures aimed at labour reforms. In the long run, a modern set of laws in the areas of taxation, labour, FDI, land acquisition and environment needs to be implemented.

Business outlook for next 12 months	2014	2013
Condition of Indian economy today		
Significant economic growth	*6%*	*2%*
Moderate economic growth	*75%*	*22%*
No noticeable change	*19%*	*38%*
Moderate economic decline	*0%*	*30%*
Significant economic decline	*0%*	*8%*
Prospects about Indian economy		
Very optimistic	*26%*	*0%*
Somewhat optimistic	*68%*	*28%*
Uncertain	*4%*	*54%*
Somewhat pessimistic	*2%*	*14%*
Very pessimistic	*0%*	*4%*
Prospects about Indian manufacturing businesses		
Margins increased in the past 6 months	*37%*	*30%*
Margins expected to increase in the next 12 months	*47%*	*54%*
Key future business activities		
Expansion to new markets abroad	*61%*	*57%*
Start at least one new strategic alliance or JV	*39%*	*43%*
Planning to hire	*35%*	*35%*
Planning major investments	*55%*	*40%*
Expected barriers to growth		
2014		
Unavailability or high price of raw materials	*50%*	
Oil or energy prices	*40%*	
Competition from foreign markets	*36%*	
2013		
Higher interest rates	*56%*	
Lack of domestic demand	*52%*	
Competition from foreign markets	*21%*	

Source: India Manufacturing Barometer Survey, November 2014 and July 2013

Survey demographics and research methodology

Demographics

Interview period	***15 July to 15 November 2014***
Average number of employees	***3,660***
Average business unit revenue	***27.6 billion INR***
Industry sectors	***Auto ancillaries, building construction materials, capital goods, chemical, engineering, metals, plastics and packaging and textiles***

Methodology

The India Manufacturing Barometer 2014 is based on a survey conducted by PwC India and Avalon Global Research. The survey typically covered senior executives such as chief executive officers, chief financial officers, chief operating officers or heads of strategy from a sample of Indian manufacturing companies.

About FICCI

Established in 1927, FICCI is one of the largest and oldest apex business organisations in India. FICCI's history is closely interwoven with India's struggle for independence, industrialisation and emergence as one of the most rapidly growing global economies. It has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A not-for-profit organisation, FICCI is the voice of India's business and industry.

FICCI draws its membership from the corporate sector, both private and public, including MNCs. It enjoys direct and indirect membership of over 2,50,000 companies from various regional chambers of commerce and through its 70 industry associations.

FICCI provides a platform for sector specific consensus building and networking and is the first port of call for Indian industry and the international business community.

Our vision

To be the thought leader for industry, its voice for policy change and its guardian for effective implementation

Our mission

To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompasses health, education, livelihood, governance and skill development

To enhance the efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages

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