ASCON Industry Survey

Q4 FY23

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Executive Summary

During 2022-23, the manufacturing sector saw a sharp dip in growth to 1.3%, compared to 11.1% in the previous fiscal. However, it saw a notable jump to 4.5% in Q4, partly aided by a low base. The Index of Industrial Production (IIP) data shows that manufacturing activity in the country grew by 5.2% in January, 5.6% in February and 1.1% in March. The results of the CII ASCON survey for Q4 FY23 also points towards a revival in manufacturing activities. Softening inflation, robust credit growth and an improvement in the international trade front seem to be working in favour of the manufacturing sector.

The Survey analysis reveals a moderate increase in the share of sectors registering 'Excellent' growth (>20%) and a substantial increase in the sectors registering 'Moderate' growth (0-10%) over the corresponding period a year ago. However, the share of sectors witnessing 'High' growth (10-20%) has shown a slight decline, and the share of sectors witnessing 'Low' growth (<0%) has also declined sharply. This indicates that growth trends have improved in the period under survey when compared to the year ago period.

On the capacity utilization (CU) front, the findings reveal a positive outlook for the surveyed quarter with 17 per cent of the respondents reporting capacity utilization in the range 90-100% compared to none in the previous quarter. This indicates some companies moved to a higher capacity utilization segment in this quarter. Nearly 25 per cent of the respondents reported capacity utilization in the range 70-80% in the surveyed quarter as compared to only 12 per cent in the previous quarter; while close to 12 per cent of the respondents reported capacity utilization in the range 80-90%, down from 38 per cent in the previous quarter. No sector reported capacity utilization below 50% in both the quarters.

The capacity utilisation during the next quarter (Q1 FY24) is expected to decline marginally from the current level with 12.5 per cent of the respondents expecting capacity utilization to stay below 50 per cent. Another 12.5 per cent expect capacity utilizations to stay between 50-60%.

Overall, the survey results indicate a pickup in the economic recovery, although inflation, a tight monetary policy and the ongoing geopolitical tensions will continue to weigh down the economic outlook.

The survey also captures suggestions than can help the industry to navigate through the current challenges and put it back on a stable growth trajectory. Major industry suggestions include building supply chain resilience, continued focus on capital expenditure, improving cost of doing business, focusing on sustainable business practices and boost to R&D and innovation in the country.

1. The Economic Situation

The growth in India's real GDP during 2022-23 is estimated at 7.2% as compared to 9.1% in 2021-22. Despite a fall from the previous year, India remains one of the fastest growing major economies in the world. The economy grew by 6.1% in the final quarter (Q4) of 2022-23 against 4.0% in the previous year. The growth rate for the first three quarters was 13.1% (Q1), 6.2% (Q2) and 4.5% (Q3) respectively. The higher-than-expected growth during Q4 have been driven by broad based improvement in private and public consumption and healthy growth in services sector. The GDP data validates the optimism shown towards Indian economy by various experts and multilateral agencies despite various global headwinds.

During 2022-23, the manufacturing sector saw a sharp dip in growth to 1.3%, compared to 11.1% in the previous fiscal. However, it saw a notable jump to 4.5% in Q4, partly aided by a low base. Agriculture sector witnessed growth of 4.0 percent while mining & quarrying and construction sector growth stands at 4.6% and 10% respectively, as per the NSO data.

The Index of Industrial Production (IIP) data shows that manufacturing activity in the country grew by 5.2% in January, 5.6% in February and 1.1% in March. During 2022-23, sectors that posted healthy growth include beverages, machinery and equipment, motor vehicles and other transport equipment, furniture, basic metals, non-metallic mineral products, refined petroleum products, and chemicals and chemical products. On the other hand, sectors that saw contraction in growth include textiles, wearing apparel, leather and related products, electrical equipment, pharmaceuticals, medicinal chemical, and botanical products.

The Consumer Price Index (CPI) inflation eased in recent months and stood at 6.16% for January as well as February and 5.66 % in March 2023, as opposed to 6.95% in March 2022, lowest in past 15 months and finally coming under the RBI's upper tolerance limit of 6% signalling further rate hike pause from RBI. The softening in CPI comes due to a steep decline in food inflation. The consumer food price index (CFPI) comes at 4.79% in March 2023 versus 7.68% in the same month a year ago.

As per RBI, sectoral deployment of credit by scheduled commercial banks shows that credit growth continued to be robust with non-food credit registering a growth of 16.7% y-o-y in January 2023 (up from 8.3% in 2022), 15.9% in February (up from 9.2% in 2022) and 15.4% in March (up from 9.7% in 2022).

At the sectoral level, credit to industry registered growth of 8.7% in January 2023 (up from 5.9% in January 2022), 7.0% in February 2023 (against 6.7% in 2022) and 5.7% in March 2023 (against 7.5% in 2022). Credit to agriculture and allied activities registered a healthy y-o-y growth of 14.4% in January 2023 (up from 10.4% in 2022), 14.9% in 2023 (up from 10.3% in 2022) and 15.4% in March 2022 (up from 9.9% in 2022).

On the trade front, India's overall exports reached USD 770.18 billion during 2022-23, growing by 13.8% over 2021-22. Merchandise exports have registered highest ever annual exports of USD 447.46 billion with 6.03% growth during FY 2022-23 surpassing the previous year record exports of USD 422 billion. Services export led the overall exports growth and touched annual value of USD 322.72 billion in 2022-23, with growth rate at 26.8% percent over the previous year.

During Q4 of 2022-23, merchandise exports in January 2023 were USD 32.91 billion (against USD 35.23 billion in January 2022). Overall exports (Merchandise and Services combined) during the month were USD 65.15 billion, exhibiting growth of 14.6% per cent over the previous year. Merchandise exports in February 2023 were USD 33.88 billion, as compared to USD 37.15 billion during the previous year. Overall exports in February 2023 were USD 63.02 billion, growing by 7.8% over the last year. Merchandise exports in March 2023 stood at USD 38.38 billion, as compared to USD 44.57 billion in the previous year and the overall exports during the month are estimated to be USD 66.14 billion, a contraction of 7.5% over the previous year.

On the policy front, India is poised to announce its first semiconductor fab soon which will transform the chip industry in the next 3-4 years on the back of enabling policy ecosystem and the Government's firm commitment towards growing manufacturing. In Textiles, PM MITRA mega textile parks will be set up in 7 states – Tamil Nadu, Telangana, Karnataka, Maharashtra, Gujarat, Madhya Pradesh, and Uttar Pradesh and are expected to create 20 lakh direct/indirect jobs and attract an estimated Rs 70,000 crore of domestic and foreign investment.

India improved in the logistics ranking of the World Bank by jumping 6 places to Rank 38 out of 139 countries in the 7th edition of Logistics Performance Index (LPI 2023). The World Bank has acknowledged India's efforts towards increasing logistics efficiency. This is a strong indicator of India's global positioning, with this development being powered by Government's focus on reforms for improving logistics infrastructure.

Against this backdrop, CII conducted its quarterly ASCON survey for January-March 2023 to gauge the performance of the industry on key parameters and the outlook for next six months.

2. CII ASCON Industry Survey Results

2.1 Methodology

Confederation of Indian Industry (CII) conducted the CII ASCON Industry Survey to ascertain the performance of industry during January-March 2023 against the corresponding quarter, January-March 2022, the year before. The Survey was conducted during the month of April 2023.

The companies covered in the Survey represent a wide spectrum of sectors including basic goods, intermediate goods, capital goods, consumer durables and non-durables and services. The analysis for the surveyed period is based on the sectoral responses received for 60 sectors.

Based on varying rates of growth at the sectoral level, the responses have been segregated in the following four broad categories: (i) 'Excellent' (growth more than 20%), (ii) 'High' (growth in the range 10-20%), (iii) 'Moderate' (growth in the range 0-10%) and (iv) 'Low' (growth less than 0%).

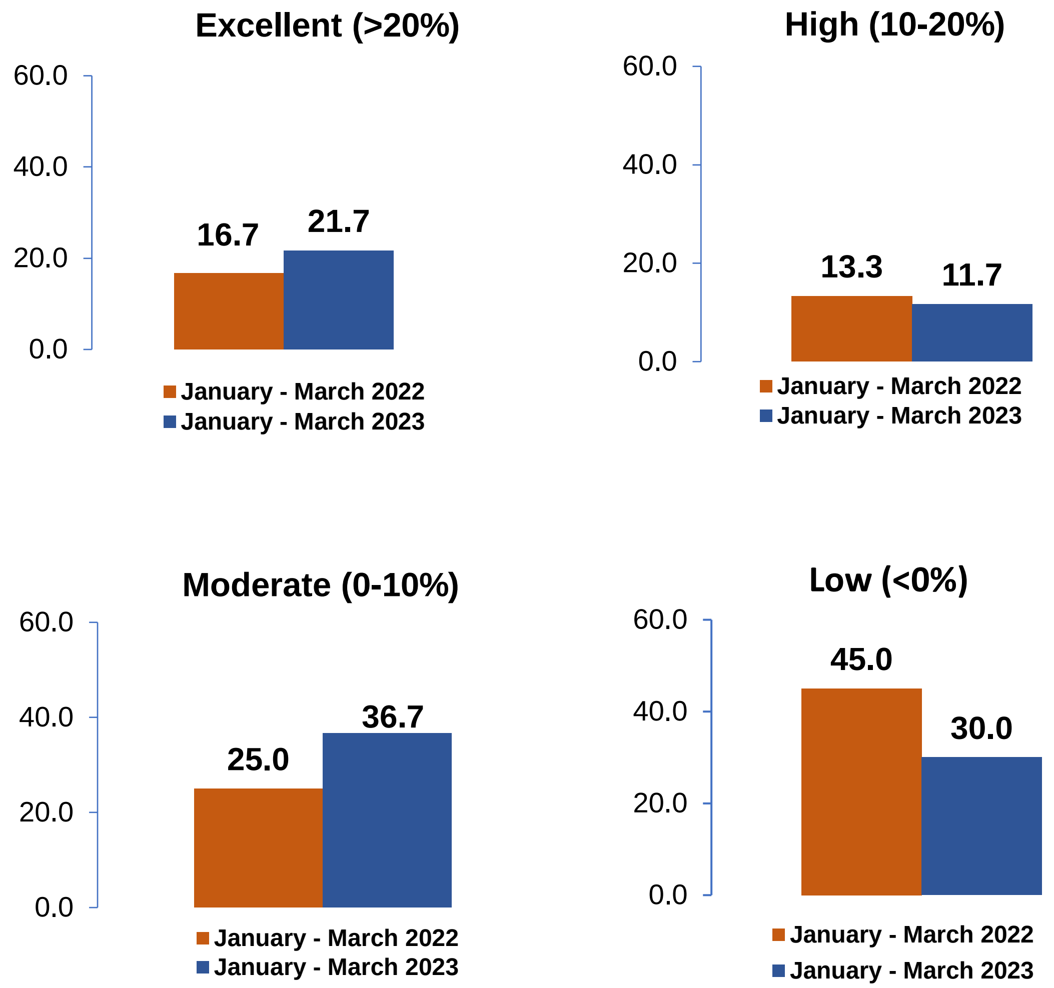
2.2 Industry performance: January-March 2023 over January-March 2022

The results of the latest CII ASCON Industry Survey for January-March 2023 show a significant improvement in growth trends in terms of production over the corresponding quarter a year ago.

Out of the sectoral responses received for 60 sectors, the Survey analysis reveals a moderate increase in the share of sectors registering 'Excellent' growth (>20%) and a substantial increase in the sectors registering 'Moderate' growth (0-10%) over the corresponding period a year ago. However, the share of sectors witnessing 'High' growth (10-20%) has shown a slight decline, and the share of sectors witnessing 'Low' growth (<0%) has also declined sharply. This indicates that growth trends have improved in the period under survey when compared to the year ago period.

According to the Survey, the share of the sectors recording 'Excellent' growth (>20%) has increased to nearly 22 percent (13 out of 60), up from 16 percent in Q3 FY23, while the share of sectors witnessing 'Moderate' growth (0-10%) has shown substantial improvement (y-o-y), up from 25 percent (15 out of 60) to 37 percent (22 out of 60) in the surveyed period. However, the share of sectors reporting 'Hihg' growth (10–20%) has witnessed a slight decline from 13 percent (8 out of 60) recorded in the same period last year to 12 percent (7 out of 60) in the surveyed period. At the same time, the share of sectors witnessing 'Low' growth (<0%) has recorded a steep decline of 15 percentage points (y-o-y). These trends indicate an overall improvement in the production patterns in Q4 FY23 when compared to the previous year.

Industry performance in January – March 2023 over 2022 (in%)

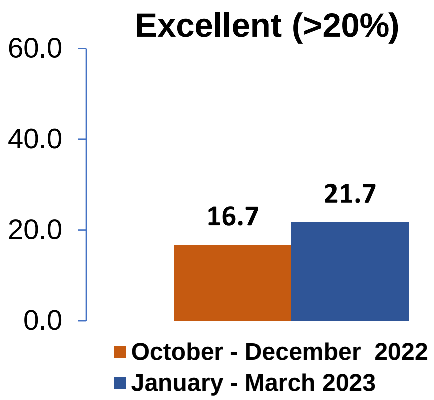


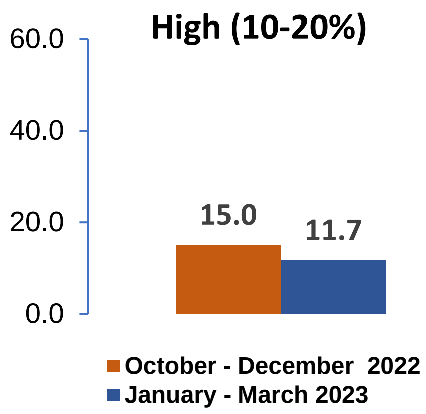
2.3 Industrial growth performance: January-March 2023 over October-December 2022

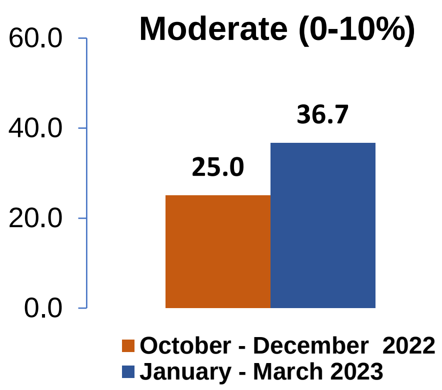
A comparison of trends on a sequential quarter-on-quarter basis reveals a moderate improvement in the growth performance in the surveyed quarter from the previous quarter. The share of sectors reporting ‘Excellent’ and ‘Moderate’ growth performance has shown an upward movement in the survey period when compared to the previous quarter. The share of sectors reporting ‘Excellent’ growth has increased to 22 per cent (up from 17 percent in Q3 FY23), while the share of sectors reporting ‘Moderate’ growth has witnessed a sharp increase, up from 25 percent in the October-December quarter to 37 percent in the surveyed quarter.

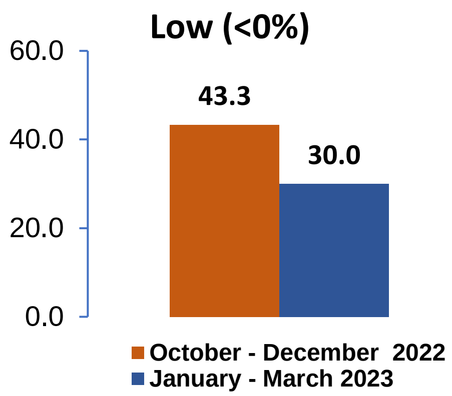
However, the share of 'High' growth sectors has registered a marginal decline from 15 percent to nearly 12 percent in the surveyed quarter. Also, there has been a substantial decrease in the sectors witnessing 'Low' Growth – down to 30 percent in the surveyed period from 43 percent reported in the previous quarter. The current growth trends indicate a sequential improvement in growth over the previous quarter.

Industry performance in January – March 2023 over October – December 2022 (in%)









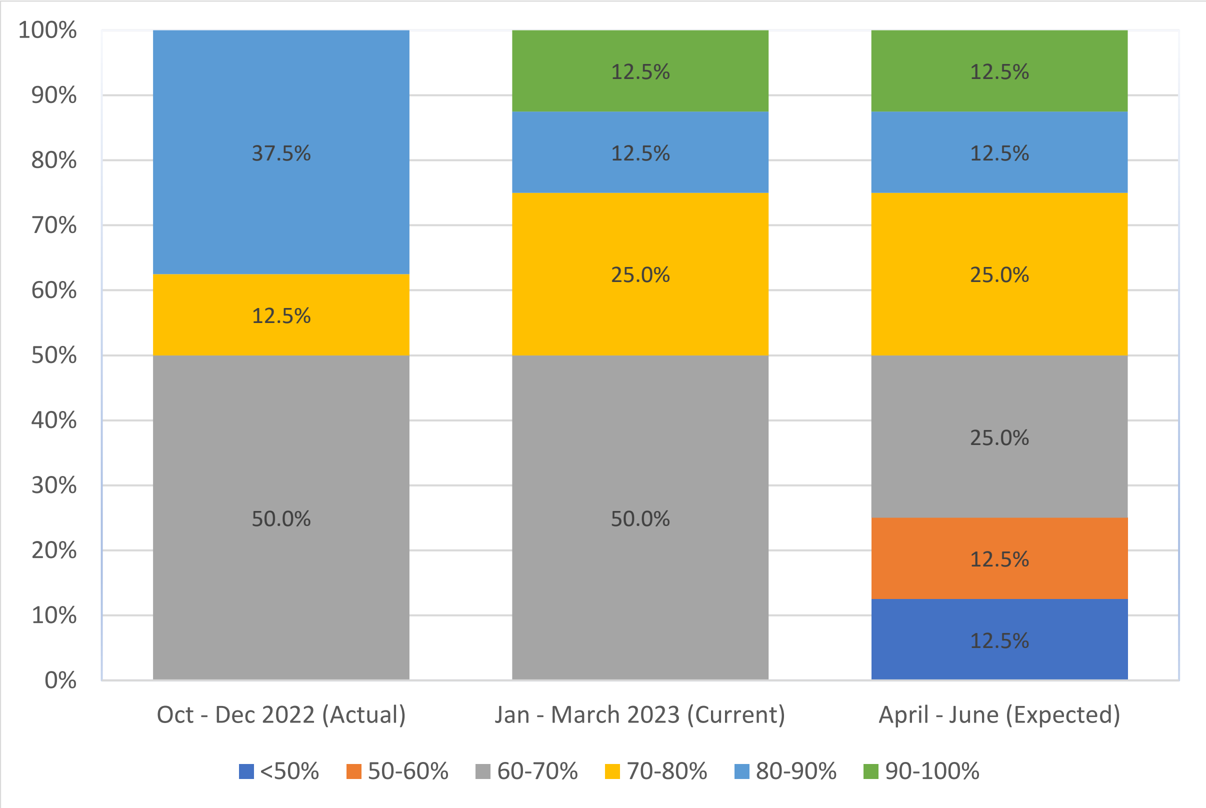
2.4 Capacity Utilization

On capacity utilization, an indicator of demand acceleration in the economy, the Survey reveals some improvement in the trends in the surveyed quarter as compared to the last quarter.

Analysing the capacity utilization trends showed that all segments expected capacity utilization to stay above 60% in the surveyed quarter. 17 per cent of the respondents reported capacity utilization in the range 90-100% compared to none in the previous quarter, indicating some companies moved to a higher capacity utilization segment in this quarter. Nearly 25 per cent of the respondents reported capacity utilization in the range

70-80% in the surveyed quarter as compared to only 12 per cent in the previous quarter; while close to 12 per cent of the respondents reported capacity utilization in the range 80-90%, down from 38 per cent in the previous quarter. No sector reported capacity utilization below 50% in both the quarters.

Capacity Utilisation Trends

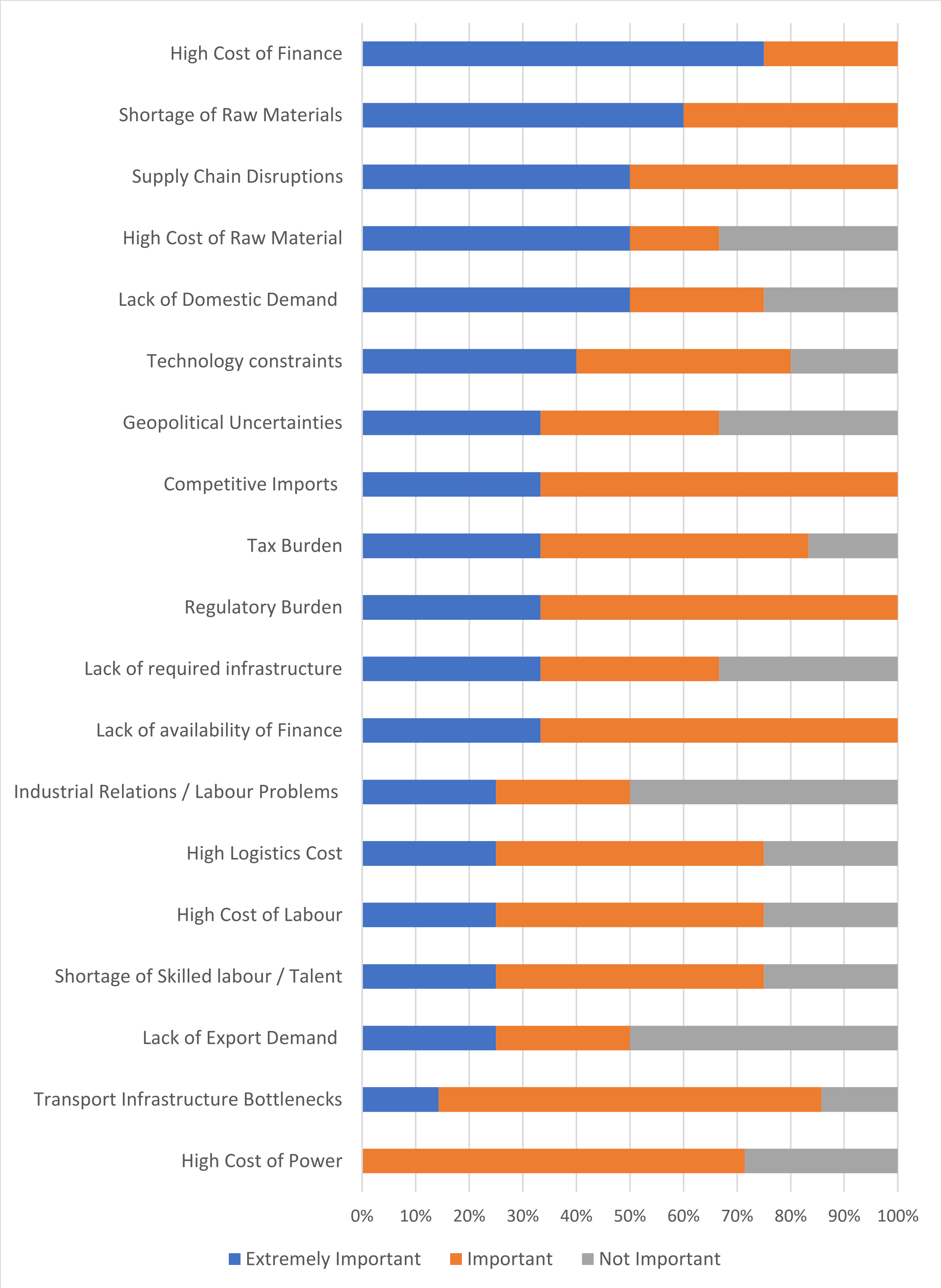


Despite the pick-up in capacity utilisation levels up to January 2023, there are expectations of a decline in capacity utilization in the next quarter with 12.5 per cent of the respondents expecting capacity utilization to stay below 50 per cent. Another 12.5 per cent expect capacity utilizations to stay between 50-60%. This expected slowdown is in-line with the broader macro-economic picture where rising geopolitical conflicts, higher commodity prices, tighter monetary conditions, and elevated levels of inflation continue to weigh on the economic recovery.

2.5 Issues and Constraints

With respect to issues and concerns impacting growth, ‘high cost of finance and raw material’, ‘supply chain disruptions’ are the “extremely important” issues being faced by the industry, as reported by 50% or more respondents. Other major issues that are “important” includes ‘regulatory burden’, ‘competitive imports’, ‘transport infrastructure bottlenecks’, ‘high cost of power’ and ‘tax burden’.

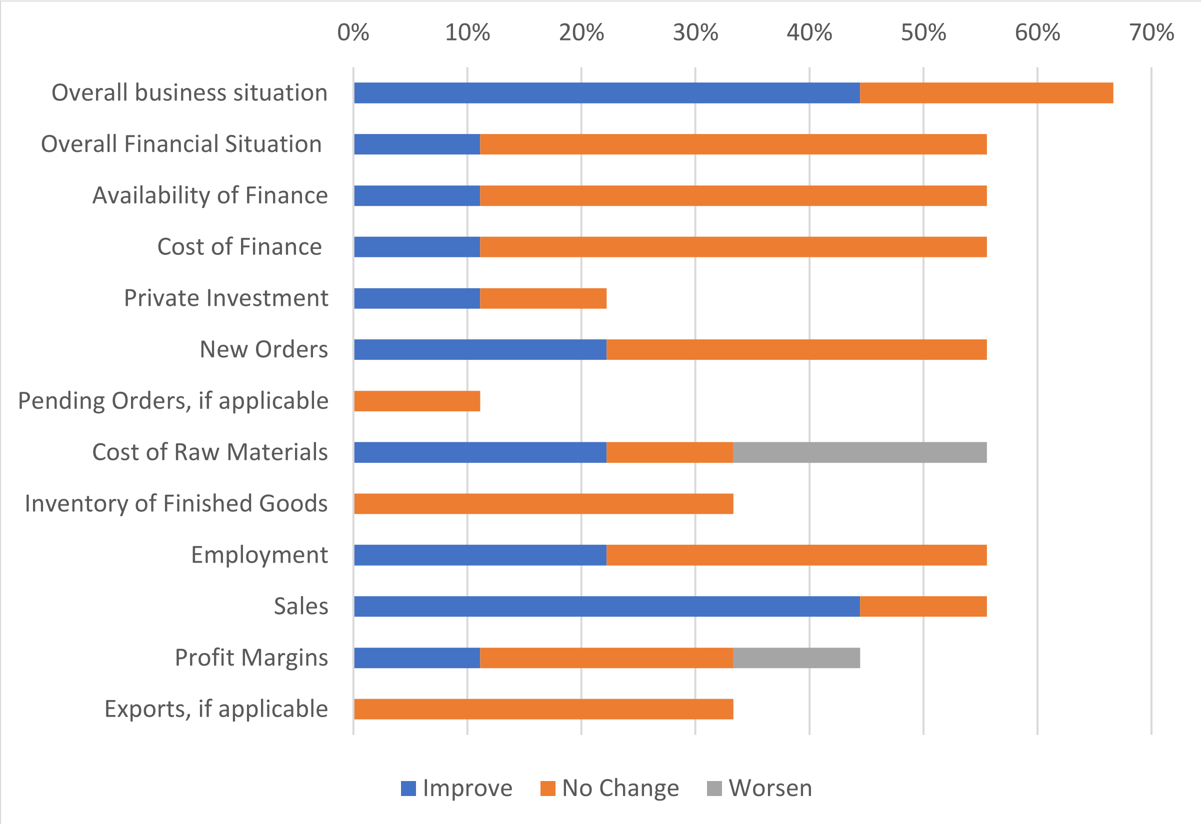
Issues and Constraints for the Industry



2.6 Outlook for next six months

Nearly 45 percent of the respondents expect an improvement in the overall business situation, while another 22 per cent expect no change in the next 6 months. A majority of the respondents do not expect the overall financial situation to change in the next two quarters, with only 11 per cent of the respondents expecting some improvement in the upcoming quarters.

Industry Outlook for the Next 6 Months



On the New Orders front, majority of the respondents expect the situation to remain the same, and only 22 per cent expect the situation to improve, a further indication of recovery.

Outlook on the Sales front is expected to improve dramatically with 45 per cent of the respondents expecting an improvement in the next two quarters. Respondents also expect some improvement on the employment front with 22 per cent expressing optimism.

According to the survey, most respondents do not expect the Exports situation to change, signalling muted demand from the external front. On the Imports front, most of the respondents expect an increase in imports, which would widen India's trade deficit and could also pose challenges for domestic industry.

Conclusion

Indian economy has shown tremendous resilience growing at 7.2% in 2022-23, getting boost from Q4, during which the economic growth stood at 6.1%. The growth numbers are better than expected in the face of ongoing slowdown in the major economies, elevated inflation, and resultant tightening of monetary policy by the Central Bank. The farm and services sector buoyed economic outcomes as just three of eight broad economic activity segments recorded a higher GVA growth than in 2021-22.

Outlook for the first quarter of 2023-24 remains largely positive. India will continue to be a bright spot and play a major role in global growth and is expected to grow at 6.5% during 2023-24 as per RBI estimates. Manufacturing sector is expected to face some hurdles as major export destinations face economic slowdown. Government measures like PLI and various other initiatives for the industry, increased focus on capital expenditure, and reforms for improving ease and cost of doing business is set to unlock the potential of the manufacturing sector.

3. Industry Suggestions

To further push the pace of recovery in economic and industrial growth, the respondents to CII ASCON Industry Survey have suggested the following broad measures:

1. **Government must ramp up Capital Expenditure**

    - Investments in infrastructure and productive capacity have a large multiplier impact on growth and employment. Speedy execution of infrastructure projects by the Government under the National Infrastructure Pipeline (NIP) and the PM Gati Shakti Masterplan will further attract private investment and raise wages and GDP.
    - Coverage of PLI should be expanded to more sectors that can generate employment like leather, furniture etc.

2. **Build supply chain resilience**

    - Develop domestic capabilities for critical component(s) as a national mission to reduce imports and mitigate disruptions. A strong supply chain helps businesses to remain competitive, enhance customer satisfaction, and improve their overall bottom line.

3. **Improve Cost of Doing Business**

    - Logistics cost in India is one of the highest, around 13-14% of GDP as compared to 7-8% in developed economies. On the other hand, the ongoing geopolitical tensions have raised the prices of key raw materials for various industries which has resulted into persistent inflation. The increase in input costs have affected the price competitiveness of Indian industry in the global market. The Government needs to look at avenues to ease logistics and commodity prices to ease input cost and improve overall competitiveness of the industry.

4. Policy reforms to further ease of doing business

- Policy reforms in the domain of land acquisition, environmental clearances, contractual conditions, and various processes that would lead to faster pace of infrastructure development.
- There is also a need for improvement in collaboration between Centre and States to reduce bureaucratic hurdles and improve efficiency.

5. Focus on Sustainability

- Government must provide support to the industry that would encourage sustainable business practices. This will help the industry in its transition and moving towards the commitment of India to become a carbon neutral economy by 2070.

6. Boost Innovation and R&D

- Government must incentivise R&D for Indian industry to compete with global players. India spends less than 1% of GDP on R&D, which is much less than its peers. The goal of *AatmaNirbhar Bharat* cannot be achieved without significantly increasing the R&D spend from its current level.

4. Appendices

Appendix A: Distribution of sample sectors over different growth ranges

Table A1: Sample Coverage: Use-based classification of sectors

Sectors	January – March 2023	October – December 2022
Basic Goods	14	15
Intermediate Goods	13	13
Capital Goods	7	8
Consumer Durables	12	9
Consumer non-durables	8	8
Other including services	6	7
Total	60	60

Appendix B: Distribution of total sample sectors over different growth ranges based on key parameters

Table B1: Production (January – March 2023 over 2022)

Excellent	High	Moderate	Low
• ATF (Aviation turbine fuel) • Beer • Conductor • Construction Equipment Machinery • Distribution Transformers • Energy Meters • Lubes • NP/NPK • Passenger Carriers (LCVs) • Passenger Carriers (M&HCVs) • Rape/Mustard • Tractors • Vans	• Circuit Breakers (LT) • Machine Tools • Motors (HT) • Relay/Control Panels, MCC & Switchboards - LV & HV • Sponge Iron • Urea • Utility Vehicles (UVs)	• Circuit Breakers (HT) • DAP (Di-ammonium phosphate) • Diesel • Domestic Cargo • Goods Carrier (3 Wheelers) • Goods Carriers (M&HCVs) • LPG • Motor Starters • Motors (LT) • Other Oil • Passenger Carrier (3 Wheelers) • Passenger Cars • Petrol • Polyester Staple Fibre • Power Cables - PVC & XLPE • Power Transformers	• Bitumen • Capacitors (LT & HT) • Goods Carriers (LCVs) • Groundnut Oil • Hydro Electric • International Cargo • Kerosene • LDO (Light diesel oil) • Mopeds • Motor cycles/Step-Throughs • Naphtha • NTCF • Nuclear • Nylon Filament Yarn • Polyester Filament Yarn • Soya

		• Railways - Tonnage • Scooter/Scooterettee • Sunflower • Tea • Thermal • Transmission Line Towers	• SSP (Single superphosphate) • Sugar

Table B2: Sales (January – March 2023 over 2022)

Excellent	High	Moderate	Low
• Goods Carrier (3W) • Passenger Carriers (3w) • Passenger Carriers (LCVs) • Passenger Carriers (M&HCVs) • Vans	• Goods Carriers (M&HCVs) • Scooter/Scooterettee • Tractors • Utility Vehicles (UVs)	• MOP • Motor cycles/Step-Throughs • NKP/NP • Passenger Cars • Polyester Filament Yarn • Polyester Staple Fibre	• DAP • Goods Carriers (LCVs) • Mopeds • NTCF • Nylon Filament Yarn • SSP • Urea

Table B3: Exports (January – March 2023 over 2022)

Excellent	High	Moderate	Low
• Scooter/Scooterettee • Utility Vehicles (UVs) • Vans	• Passenger Carriers (M&HCVs)		• Goods Carrier (3W) • Goods Carriers (LCVs) • Goods Carriers (M&HCVs) • Mopeds • Motor cycles/Step-Throughs • NTCF • Nylon Filament Yarn • Passenger Carrier (3W) • Passenger Carriers (LCVs) • Passenger Cars • Polyester Filament Yarn • Polyester Staple Fibre • Tractor

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India completes 75 years of Independence in 2022, it must position itself for global leadership with a long-term vision for India@100 in 2047. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2022-23 as Beyond India@75: Competitiveness, Growth, Sustainability, Internationalisation has prioritized 7 action points under these 4 sub-themes that will catalyze the journey of the country towards the vision of India@100.

With 62 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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