Accelerated growth in India's manufacturing sector likely to continue: Ficci

Demand comes out to be a limiting factor with over 40% of respondents highlighting it

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The growth momentum in India's manufacturing sector accelerated in the second quarter of the current financial year and is likely to continue for the subsequent quarters of FY24, notwithstanding the slowdown in developed nations, the latest quarterly survey by the Federation of the Indian Chambers of Commerce and Industry (Ficci) showed on Monday.

The survey shows 79 per cent of respondents reported higher production levels in the September quarter over the year-ago period, as against 57 per cent who reported higher output in the June quarter of FY23.

The survey drew responses from over 380 manufacturing units covering both large and small & medium enterprises (SMEs) with a combined annual turnover of over ₹4.9 trillion.

It assessed the units across ten major sectors of automotive & auto components; capital goods; cement; chemicals, fertilisers and pharmaceuticals; electronics; machine tools; metal & metal products; paper products; textiles and textile machinery.

The average capacity utilisation in manufacturing was over 74 per cent in the September quarter, reflecting sustained economic activity in the sector. This is slightly higher than 73 per cent capacity utilisation reported for previous quarters.

"The future investment outlook has also improved as compared to the previous quarter as over 57 per cent of respondents reported plans for investments and expansions in the coming six months. This is also a slight improvement over the previous survey," the survey noted. It said that based on responses, electronics & white goods, cement, automotive and machine tools have displayed strong growth and are clear outperformers, whereas sectors like capital goods & construction machinery, chemicals, textiles, metals, paper and other sectors shown moderate growth.

Demand comes out to be a major constraint and limiting factor with over 40 per cent of respondents highlighting it, despite performance on the export front seeming to be better than in previous quarters as over 48 per cent of the respondents reported higher exports in Q2 as compared to 33 per cent in Q1.

The other minor constraints are high raw material prices, increased cost of finance, logistics, and other supply chain disruptions.

"Whether it is domestic demand or exports, this remains a major limiting factor. Further improvement in export demand is required in the light of the country's growth aspiration," the survey said. In terms of hiring, the outlook looks stable with around 38 per cent of the respondents looking at hiring additional workforce in the next three months, although 18 per cent of respondents feel that there is still a lack of skilled workforce available in their sector.

Meanwhile, the manufacturers faced some moderation in the cost pressures in Q2 as the cost of production as a percentage of sales in the survey has risen for 58 per cent of respondents as compared to 77 per cent of respondents in the previous quarter.

"Nonetheless, high raw material prices and high energy cost are the two main factors contributing to the high production costs," the survey added.