

FICCI's Overall Business Confidence Index at six quarter high
Demand pulse gaining traction
However both cost and availability of credit remain a concern
On an average, companies are still paying an interest rate of about 12.0% on
working capital and term loans

NEW DELHI, 2 November 2016: The results of FICCI's latest Business Confidence Survey points towards a sanguine mood among members of India Inc. ***The Overall Business Confidence Index (OBCI) rose to a six quarter high.*** The index value stood at 67.3 in the current survey, vis-à-vis 62.8 in the last round.

This was supported by an improved assessment of the respondents with regard to current conditions as well as expectations. The proportion of respondents citing a 'moderately to substantially better' performance currently vis-à-vis last six months noted an increase at all the three levels – economy, industry and firm level. The participants were optimistic about near term prospects as well.

About 63% of the respondents in the present survey reported current economic conditions as 'moderately to substantially better' compared to last six months. Likewise, the corresponding number at the industry and firm level was 63% and 60% respectively.

About 75% of the participants said that they foresee a better performance at the economy level in near term. Further, 63% of the respondents at the industry level and 70% of the respondents at the firm level were hopeful of a better performance going ahead.

India is on the recovery course and there are indications of an improved economic activity. The Government's focus on reforms has been laudable and it is hoped that the momentum on implementation will continue. The recent consensus on the passage of GST Bill is commendable and industry is looking forward to GST being rolled out in April next year. This will be a game changer for Indian industry and economy.

The survey results also show that the demand pulse is gradually gaining strength, which is a welcome sign. Good monsoons and award of the seventh pay commission will give a further trigger to demand.

In the current round, 46% of the participants reported weak demand to be an impediment to their business performance. This was lower than 59% respondents stating likewise in the previous round. ***The proportion of respondents indicating demand to be a constraining factor has noted a decline for the third consecutive quarter.***

The respondents also indicated that they foresee a pickup in domestic demand over the period October, 2016 to March, 2017. 62% of the respondents said that they expect domestic

demand to increase by up to 10% over next six months; and about 16% participants anticipated an increase of more than 10%.

Further, a higher proportion of respondents (vis-à-vis the last survey) expected an improvement in the order book position over next two quarters. About 59% of the respondents anticipated a better order book position over the coming six months, vis-à-vis 55% stating likewise in previous round.

With respect to credit, an increase was noted in the proportion of respondents citing availability and cost of credit to be constraining factors. In the present round 54% of participants reported cost of credit to be a bothering factor. The corresponding number in the previous round was 46%.

In addition, 29% respondents said availability of credit was an issue, vis-à-vis 24% stating likewise in the previous round.

High interest cost has been one of the major areas of worry for the industry. It remains critical that the cost of capital is made competitive to propel investments. The Reserve Bank of India has cut the repo rate by 175 bps since January last year. ***The survey results show that on an average, the companies are paying an interest rate of about 12.0% on working capital and term loans.***

The Government had also announced a cut in the small saving rates earlier this year. It remains critical that Banks take cognizance of the situation and transmit these cuts by lowering the lending rates.

Results pertaining to operational parameters indicated mixed signs. In the present round, participating companies seemed upbeat about near term sales prospects and profits when compared to the previous survey results; however their outlook on other parameters such as investments, employment and exports was by and large unchanged.

With regard to sales prospects, a majority of the respondents anticipated an improvement in performance over the next two quarters. About 62% participating companies said that they foresee higher sales over the coming six months. In the previous survey, 55% companies had reported the same. ***Higher disposable income in hands of consumers along with the onset of festive season is expected to drive sales.***

On the investment front, a marginal increase was noted in the proportion of respondents expecting an uptick in investments. 41% participants anticipated higher investments over the next six months, which was 2 percent points higher than the corresponding number in the previous round.

In light of the measures undertaken by Government to kick-start investments, the participants were also asked to indicate if they have witnessed any projects taking off in and around their area of operation.

About 46% of the participants in the survey said that they have noted an improvement in investment activity in and around their area of operation. The participants indicated projects being implemented in sectors including Roads & Highways, Civil Aviation, Power, Construction, Auto & Auto Ancillary.

Further, the latest assessments by IMF and World Bank point towards persistence of headwinds and global economic situation is likely to remain challenging over the near term. This sombreness was also reflected in the outlook of the participants with regard to exports. In the current survey, 32% of respondents anticipated exports to go up over the next two quarters. In the previous round the corresponding number was 34%. In addition, 45% respondents expected no change in the export volumes, while 23% said that they foresee a decline.

With regard to hiring prospects, 31% of respondents in the latest round reported that they would consider hiring more people in the coming six months; the corresponding number in the last round was 29%. Nonetheless, still a majority 56% of the participants did not foresee any fresh hiring over the near term.

Survey Link: <http://ficci.in/SEDocument/20381/Business-Confidence-Survey-October2016.pdf>

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