

Corporate India's business confidence takes a hit
Market demand weakened following demonetization – 4 out of 5
companies report weak demand
as an impediment to business performance in FICCI's Business
Confidence Survey, Jan.'17
Union Budget 2017-18 crucial for stimulating economy

NEW DELHI, January 31, 2017: According to results of FICCI's latest Business Confidence Survey, the Overall Business Confidence Index (OBCI) slipped to a four quarter low of 58.2 vis-à-vis 67.3 in the last round. The fall in overall index value was largely on account of the weakness that has gripped the performance of corporate India on account of demonetization and their assessment of the current state of economy.

The survey was conducted during the months of December 2017 and January 2017 to capture their assessment of the current situation as well as gauge expectations regarding performance for the period January 2017 to June 2017. The survey drew responses from about 207 companies belonging to a wide array of sectors.

While, a majority of the respondents said that demonetization is a positive step towards reducing black money and corruption from the economy; however, the move did have an impact on their sales. The liquidity shortfall has affected day-to-day business operations. Realizations and payments both have been affected. The respondents belonging to sectors such as automobile and ancillary industries, farm based products, construction, mining and cement reported a direct impact on their sector's performance.

Further, while some respondents indicated a time frame of three months for things to normalize, others felt that it could even take about a year. Nonetheless, a majority of them said that things should be back to normal in next six months (by June 2017).

With regard to near term expectations, a note of caution underlined the sentiment of the participants and results pertaining to operational parameters indicate deterioration with respect to most parameters except for exports.

The respondents seemed upbeat about the export prospects. About, 54% respondents said that they foresee higher exports over the next two quarters. The corresponding number in the previous round was 32%. This is line with the improvement indicated in India's actual exports growth seen over the past few months. Our exports to some of the key destinations including America, Europe and Asia have noted an increase.

On the investment front, not much change was noted in the outlook of the respondents. 44% of the survey participants anticipated higher investments over the next six months, which was 3 percentage points higher than the corresponding number in the previous round. The private

domestic capex cycle has been weak and a break away from this trend will be critical to support and sustain growth.

With regard to sales prospects, a decline was noted in the proportion of respondents foreseeing higher sales. About 46% respondents said that they expect sales to increase over the next six months vis-à-vis 62% stating likewise in the previous round.

Also, the companies are still operating at sub-optimal capacity utilization rates. In the present survey, 60% of the participating companies reported that they are operating at a capacity utilization rate of below 75%. This was 8 percentage points higher than the proportion of respondents indicating the same in the previous round.

In the present survey, the outlook of respondents with regard to employment generation worsened with only 18% of the surveyed firms anticipating an increase in hiring in the coming six months vis-à-vis 31% stating likewise in the previous round. Further, 66% of the participants did not foresee any fresh hiring over the near term.

According to the survey results weak demand has once again emerged as a key impediment to business performance of companies. In the present survey 79% of respondents reported weak demand as an impediment for their companies. This was significantly higher than 46% stating likewise in the previous round.

Demand situation was seen improving over the last few quarters and the proportion of respondents citing demand to be a constraining factor also noted a decline in the past three rounds of FICCI's Business Confidence Survey. The sudden shift in trend can be attributed to domestic consumption being hit by the demonetization move of the Government.

Nonetheless, the respondents indicated that they do foresee a pickup in demand (both domestic and external) over the period January 2017 to June 2017. 58% of the participating companies foresee an increase in domestic demand over the near term; while 69% of the respondents expected external demand to increase over the next six months.

Respondents opined that GST implementation, uptick in US economy, lower interest rate and new infrastructure projects kicking off will aid growth going ahead.

With respect to credit, a decline was noted in the proportion of respondents citing availability and cost of credit to be a constraining factor. In the present round 43% of participants reported cost of credit to be a bothering factor. The corresponding number in the previous round was 54%.

India Inc's expectations from Union Budget 2017-18

Majority of respondents felt that the forthcoming Union Budget should FOCUS on.... • Stimulating demand for consumer goods • Laying thrust on infrastructure • Furthering ease of

doing business (reduction in compliances with the Labour Department) • Removing the remaining inverted duty structure that does not favour local manufacturing

...further with respect to TAXATION, government should • Lower Corporate Tax Rate • Reduce Income Tax Rates • Roll out GST implementation framework

OTHER EXPECTATIONS • Further incentivize housing sector • Extend support for exporters • Promote skill development programmes with focus on skilling women.

Weblink: <http://ficci.in/Sedocument/20387/Business-Confidence-Survey-January-2017.pdf>

FICCI MEDIA DIVISION