

**FICCI's latest Business Confidence Survey reports persisting apprehension among members of India Inc....
Overall Business Confidence Index slips to 56.7 in the latest round
....investment outlook remains clouded**

Latest survey reports decline in Business Confidence Index...

According to results of FICCI's latest Business Confidence Survey, the Overall Business Confidence Index slipped by 7 notches and stood at 56.7. In the previous round, the corresponding figure was reported at 64.1. The latest survey reports persistence of apprehension among members of India Inc. Industry members continue to find themselves in a difficult position, with little improvement noted in key operational parameters – including investments, sales and employment.

It remains extremely critical that positive sentiment that was generated with announcement of various reforms measures is kept intact. The past twenty months have been unprecedented in terms of the policy direction that has been laid by the Government; however going ahead it will be crucial to not only continue the momentum on reform front but firm up the implementation strategy.

Overall Business Confidence Index, Expectation and Current Conditions Index

	Last Year February 2015	Last Survey November 2015	Present Survey February 2016
Current Condition Index	62.5	58.4	51.4
Expectation Index	74.5	67.0	59.4
Overall Business Confidence Index	70.5	64.1	56.7

The present survey was conducted during the months of January/February 2016 and drew responses from about 150 companies belonging to a wide array of sectors. The survey gauges expectations of the respondents over the period January 2016 to June 2016.

According to the survey results, a moderation was noted in current conditions vis-à-vis last six months at all the three levels- economy, industry and firm level. Further, the expectations of respondents about near term future did not notice much change from the previous survey results. Once again at all the three levels, the proportion of respondents citing improved performance over the next two quarters noted a decline.

In the current survey, about 59 percent of respondents indicated that they expect a moderately to substantially better performance at the economy level over the next six months. The corresponding figure in the previous round was 62 percent. Further, at the industry and firm level 49 percent (compared to 51 percent in last round) and 56 percent (compared to 65 percent in last round) of participants anticipated an improvement over the near term.

Expected performance over next six months

(proportion of respondents)

	Economy	Industry	Firm
Moderately to Substantially Better			
Last Survey	62	51	65
Present Survey	59	49	56
Same			
Last Survey	30	45	26
Present Survey	26	31	31
Moderately to Substantially Worse			
Last Survey	9	4	9
Present Survey	15	20	13

Investment prospects subdued....

Further, participants were not very sanguine about the investment prospects. About 41 percent of respondents (which was same as last round) anticipated higher investments over the next two quarters, and about 44 percent of the respondents cited no change in the investment level. This is further confirmed by the results on the capacity utilization rates of companies. About 70 percent of the respondents in the current round said that they are operating at below 75 percent capacity, much higher than 49 percent stating likewise in the last round.

In addition, on being asked if the participants were aware of any major projects being implemented on ground in and around their area of operation given the announcements made and reforms that are underway, a majority of them indicated that they are yet to see investment intentions fructifying at the ground level. However, some of the respondents did indicate that they have noticed project activity in the vicinity and that most of these projects coming up have been in the infrastructure space – specifically road, highways and energy sector related.

Besides, sales and employment outlook of the companies has also noted a moderation. The prognosis about sales remained on a downtrend for the third consecutive survey round. About 46 percent of the respondents cited an increase in sales over the next two quarters, the corresponding figure in the last round was 51 percent. Further, another 46 percent participants expected no change in their sales level going ahead. Likewise, more than half of the participants did not foresee any fresh hiring over the near term.

Operational Parameters: Prospects over next six months*(proportion of respondents)*

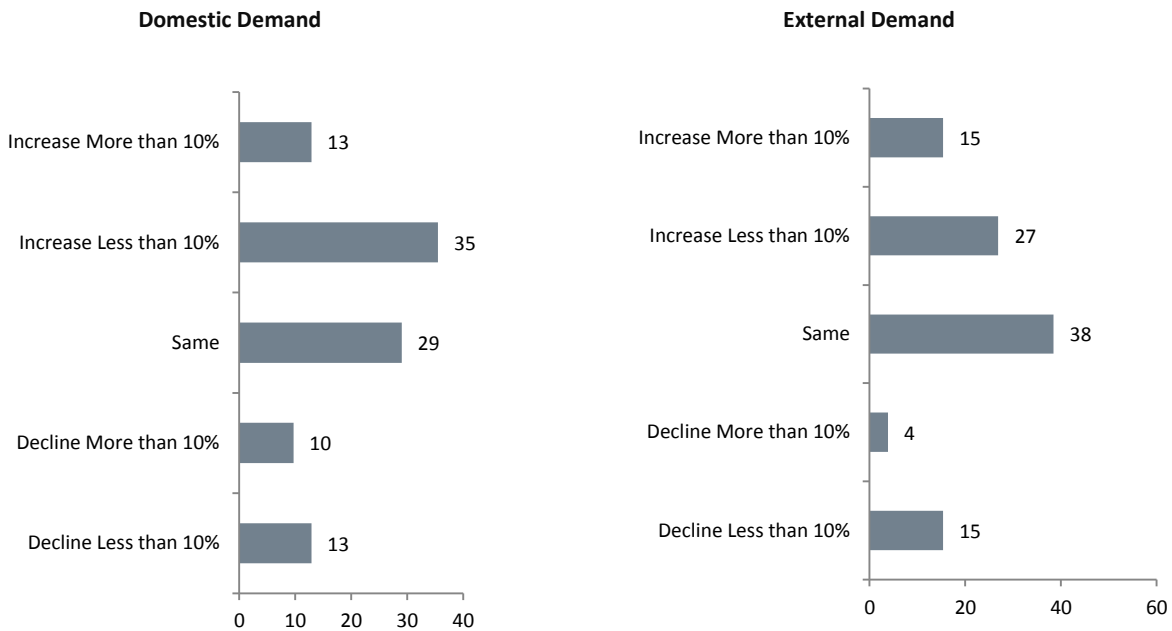
	Investment		Sales		Export		Employment	
	Last Round	Current Round	Last Round	Current Round	Last Round	Current Round	Last Round	Current Round
Higher	41	41	51	46	29	33	31	23
Same	38	44	42	46	47	44	56	54
Lower	21	15	7	8	24	23	14	23

Weak demand a major constraining factor....

On being asked about the key constraining factors impacting businesses, weak demand was once again cited as a key concern area. In the present round, about 67 percent of the participants reported demand to be a bothering factor, vis-à-vis 64 percent stating likewise in the previous round.

About 39 percent of the respondents indicated that the current domestic demand has declined vis-à-vis last six months. And about 42 percent respondents reported a decline in export demand compared to last two quarters. However, the participants do expect a pickup in demand over the period January – June 2016.

Demand likely to pick up over coming six months (January – June 2016)



Other than demand, the results indicated that while availability of credit was not so much of an issue; cost of credit still remained a concern for 50 percent of the participants.

Credit Situation: Availability of credit was reported to be a concern by only 24% of the respondents, while cost of credit was still a bothering factor for 50% respondents.

(proportion of respondents)

	Last Survey	Present Survey
Credit		
Availability	30	24
Cost	53	50

Further, since the Reserve Bank of India has cut the repo rate by 125 bps in the year 2015 and the Banks have transmitted about 60 bps so far through a reduction in the median base lending rates, **the respondents were asked to indicate if they have been able to benefit from this reduction in lending rates. The response here was somewhat divided, with about 58 percent of the companies reporting that they have not really benefitted from the rate cut as of now.** For those, who had indicated that they have been able to benefit from the rate cuts, the transmission was reported to be in the range of 25 bps to 125 bps and 68 bps on an average.

(proportion of respondents)

	Yes	No
Reserve Bank of India has cut the repo rate by 125 bps in the year 2015 and the Banks have transmitted about 60 bps so far through a reduction in the median base lending rates. Have you been able to benefit from this reduction in lending rates?	42%	58%

Expectations from forthcoming Union Budget 2016-17....

Lastly, with Budget around the corner the participants were asked to state their key expectations from the forthcoming Union Budget 2016-17. The respondents opined that the focus of the Budget should be on reviving demand and giving a push to investments particularly in the infrastructure sector.

Top Expectations from Union Budget 2016-17

Pass the Goods and Services Tax (GST) Bill in budget session	Increase public spending on infrastructure projects	Simplify tax structure and procedures
Rationalize income tax rates and abolish Dividend Distribution Tax	Remove MAT in respect of SEZs	Prioritize development of the agriculture sector
Initiate a reduction in Corporate Tax from the present 30% towards the objective of 25% as envisaged	Initiate measures to safeguard local industries from unfair competition from imports (particularly from China)	Initiate steps to ease availability of credit from financial institutions to facilitate growth

Annexure

Survey Profile

The survey drew responses from about 150 companies with a turnover ranging from Rs. 25 lakh to Rs. 84,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents over the period January 2016 to June 2016.

Broad Sectoral Coverage

Automobile Parts and Ancillaries	Real Estate & Construction	Health and Personal Care
Agricultural Machinery	Food Processing	Plastic Products
Pharmaceuticals	Financial Services	Food & Beverages
Electric Products	Medical Devices	Media
Textiles	Oil and Gas	Mining