Business Confidence Survey

January 2017

HIGHLIGHTS

Overall Business Confidence Index dips to a four quarter low

According to FICCI's latest survey results, the Overall Business Confidence Index (OBCI) slipped to a four quarter low of 58.2 in the current survey, vis-à-vis 67.3 in the last round.

Index	Present Survey	Last Survey
Current Conditions	43.3	64.1
Expectations	65.9	69.0
OBC	58.2	67.3

The sharp dip in current condition index can be attributed to the sudden spur of uncertainty created by the Government's move to demonetize high value currency notes. Cash dependent sectors especially in the informal economy have been affected. The Government has been working to minimize the impact of demonetization and the economy is on the path of normalization.

Respondents cite deterioration in current conditions

Proportion of Respondents citing 'Moderately to Substantially Better' Performance

	Economy	Industry	Firm
Current conditions vis-à-vis last six months			
Last Survey	63	63	60
Present Survey	25	19	35
Expectations over next six months			
Last Survey	75	63	70
Present Survey	63	60	75

The proportion of respondents citing a 'moderately to substantially better' performance in the current conditions vis-à-vis last six months noted deterioration at all the three levels – economy, industry and firm level.

In the current survey the participants seemed a little cautious about the near term performance as well. The proportion of respondents citing a 'moderately to substantially better' performance over the next two quarters noted a decline at the economy and industry level.

However, respondents were a little more confident about the near term prospects at firm level.

Impact of De-monetization to wane off over coming six months (by June 2017)

With regard to demonetization the respondents were asked to share their feedback about the impact on their sector and by when do they see normalcy returning.

A majority of the respondents said that they feel demonetization is a positive step towards reducing black money and corruption from the economy, however the move did have an impact on their sales. Also, 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 the sector.

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.

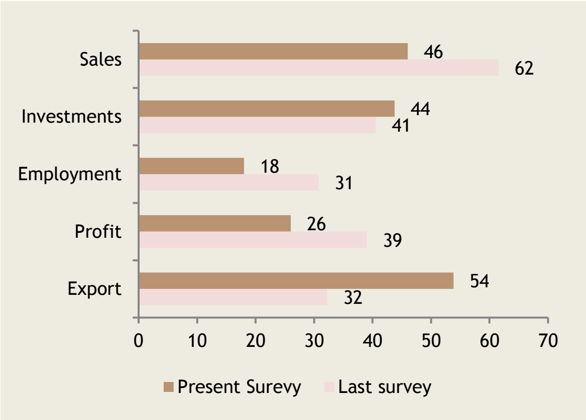
Nonetheless, a majority of them said that things should be back to normal in next six months (by June 2017).

Outlook of respondents with regard to operational parameters

Results pertaining to operational parameters indicate deterioration with respect to most parameters except for exports.

The respondents seemed quite 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 export growth over the past few months. Our exports to some of the key destinations including America, Europe and Asia have noted an increase.

Operational Parameters
Proportion of respondents anticipating better prospects over next two quarter



On the investment front, not much change was noted in the outlook of the respondents. 44% 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 the current survey results indicate a slight improvement. A break away from this trend will be critical to support and sustain growth.

With regard to sales prospects, a visible 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.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	60	52
Above 75%	40	48

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

Key constraining factor for businesses

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.

However, according to the latest survey results weak demand has once again emerged as a bothering factor. In the present survey round 79% of respondents reported weak demand as an impediment for their companies. This was significantly higher than 46% stating likewise in the previous round.

The sudden shift in trend can be attributed to domestic consumption being hit by the demonetization move of the Government.

(proportion of respondents)

	Present Survey	Last Survey
Respondents citing weak demand to be a concern	79	46

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.

Demand situation over coming six months

(Proportion of respondents)

	Domestic Demand		External Demand	
	Present Survey	Last Survey	Present Survey	Last Survey
Decline less than 10%	24	11	13	16
Decline more than 10%	4	3	0	9
Same	14	8	18	28
Increase less than 10%	40	62	58	31

Increase more than 10%	18	16	11	16

Marginal decline in the proportion of respondents citing availability and cost of credit to be a concern

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%.

The survey results show on an average, companies are paying an interest rate of about 11.0% on working capital and term loans.

Top 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

- Lower Corporate Tax Rate
- Reduce Income Tax Rates
- Roll out GST implementation framework

OTHER EXPECTATIONS

- Incentivizing housing sector
- Support for exporters
- Skill development programmes with focus on skilling women

Outlook for the year 2017

Factors that will pose as RISKS	Factors that will AID growth
Weak demand	GST Implementation
Strengthening USD	Uptick in US economy
Increase in commodity prices	Lower interest rate
Uncertainty on account of Brexit and direction of US policies	New infrastructure projects taking off

Survey Profile

The survey drew responses from about 207 companies with a turnover ranging from Rs 1 crore to Rs 64,400 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January 2017 to June 2017.

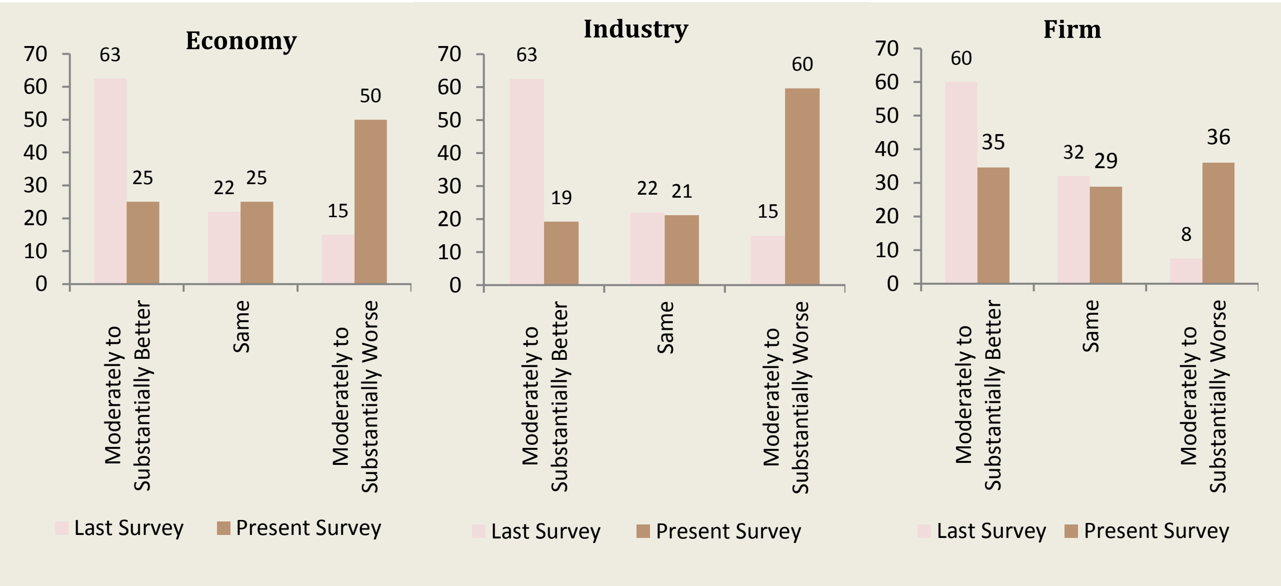
Broad Sectoral Coverage

Pharmaceuticals	Steel	Gems & Jewellery
Textiles	Automotive	Mineral Resources
Renewable Energy	Food Processing	Construction
Agricultural Machinery	FMCG	Electronics/Electric Machinery

Detailed Survey Findings

Current Conditions vis-à-vis last six months

(Proportion of respondents)

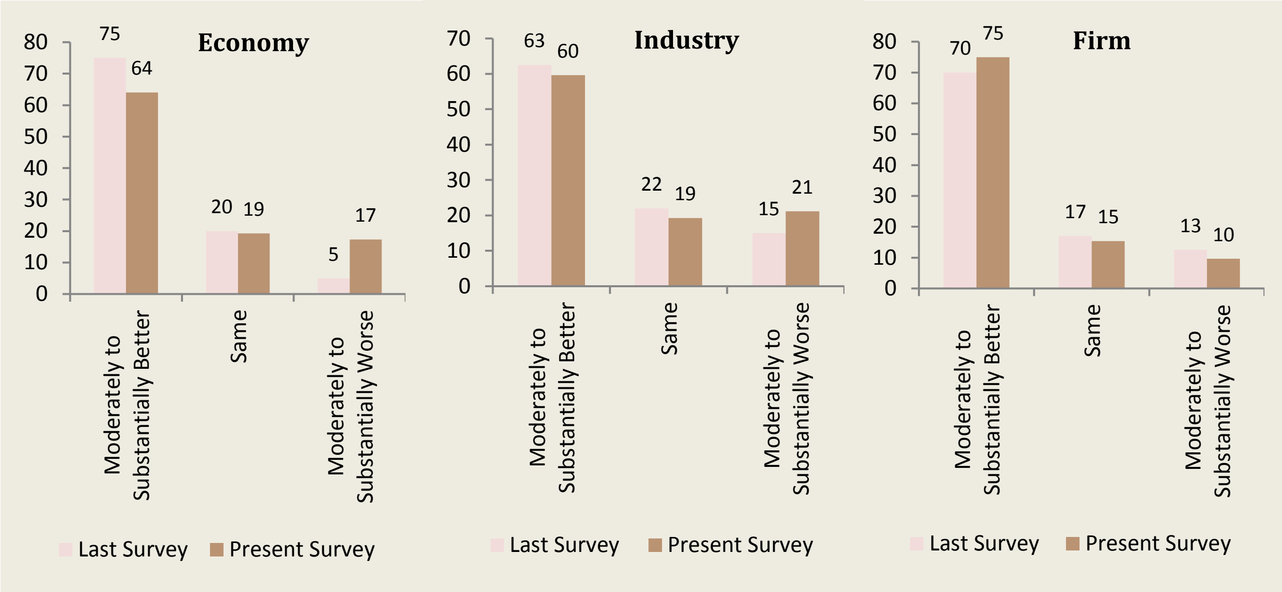


Current Conditions Index	Last Survey	Present Survey
	64.1	43.3

In the latest survey, the participants reported a sharp deterioration in the current conditions vis-à-vis last two quarters at all three levels – economy, industry and firm. Only 25% of the respondents in the present survey reported the current economic conditions as 'moderately to substantially better' compared to the previous six months, vis-à-vis 63% stating the same in the last round. The corresponding number at the industry level and firm level stood at 19% and 35% respectively. Consequently, the proportion of respondents reporting worsening of performance vis-à-vis past six months at all three levels noted an increase.

Expected performance over next six months

(Proportion of respondents)



	Last Survey	Present Survey
Expectations Index	69.0	65.6

According to results of the latest survey, participants seemed slightly less optimistic about the near term performance compared to the last survey results. The proportion of respondents citing a 'moderately to substantially better' performance over the next six months noted moderation at the economy and industry level. 64% of the participants said that they foresee a better performance at the economy level in near term. The corresponding figure in the previous round was 75%. At the industry level, 60% of the respondents cited an improvement going ahead vis-à-vis 63% stating likewise in the previous round.

However, respondents seemed a little more sanguine about the performance at the firm level. At the firm level, 75% respondents were hopeful of an improvement over the next six months vis-à-vis 70% stating likewise in the previous round.

Overall Business Confidence Index dips to a four quarter low

	Last Survey	Present Survey
OBCI	67.3	58.2

Overall Business Confidence Index (OBCI) stood at 58.2, about 9 notches lower than the corresponding index value in the previous round. Both, Current Conditions Index as well as Expectations Index noted a fall, thereby pushing down the Overall Business Confidence Index.

India's economy has been holding steady despite several global headwinds. However, the sharp dip in the current conditions index can be attributed to the sudden spur of uncertainty created by the Government's move to demonetize high value currency notes. Sectors especially in the informal economy have been hit hard. Although the Government has been working to minimize the impact of demonetization it will take some time before the economy completely recovers from the impact of demonetisation.

Impact of De-monetization to wane off over coming six months (by June 2017)

With regard to demonetization the respondents were asked to share their feedback about the impact on their sector and by when do they see normalcy returning.

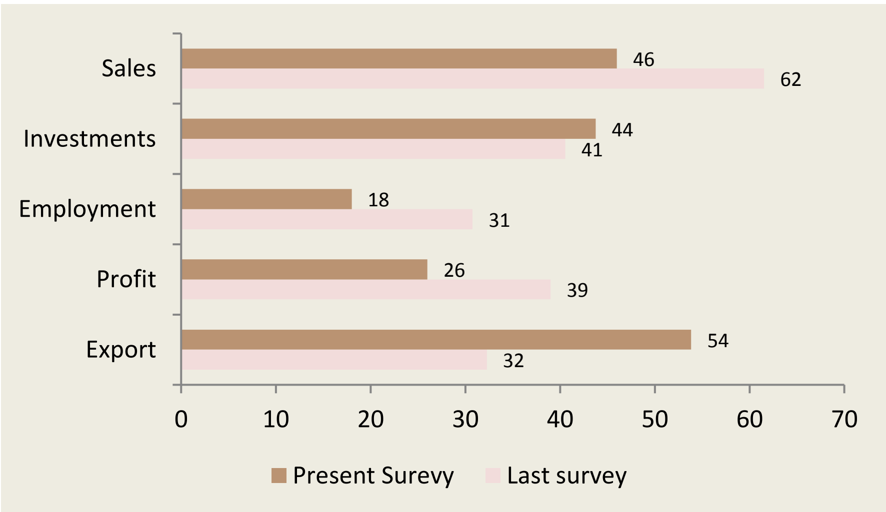
A majority of the respondents said that they feel demonetization is a positive step towards reducing black money and corruption from the economy, however, the move did have an impact on their sales. Also, the liquidity shortfall has affected day-to-day business operations. Realizations and payments both 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 the sector.

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 over next six months (by June 2017).

Also, on the global front the results of the US Presidential elections and the OPEC's decision to cut crude production have had an impact on the overall sentiment. With regard to the prospects going ahead, our latest survey results indicate a slight dip in the expectation index as well.

Outlook on operational parameters

Operational Parameters
Proportion of respondents anticipating better prospects over next two quarters



Results pertaining to operational parameters indicate deterioration with respect to most parameters except for exports.

The respondents seemed quite 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 export growth over the past few months. Our exports to 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% 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 the current survey results indicate a slight improvement. A break away from this trend will be a critical factor to support growth.

With regard to sales prospects, a visible decline was noted in the proportion of respondents foreseeing higher sales. About 46% respondents said that they expect higher sales over the next six months vis-à-vis 62% stating likewise in the previous round. Consumption has been hit post demonetization which has impacted the outlook of the companies with respect to sales. This is also reflected in the significant increase noted in the proportion of respondents citing weak demand to be constraining factor for businesses *(see below)*.

Also, the companies are still operating at sub-optimal capacity utilization rates. In the present survey, 40% of the participating companies indicated that they are operating at a capacity utilization rate of over 75%. This was lower than 48% respondents stating the same in the previous round. 60% of the companies were operating at a capacity utilization rate of less than 75%.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	60	52
Above 75%	40	48

With regard to profits, about 26% participants anticipated an increase in profits over near term, vis-à-vis 39% stating likewise in the previous round.

In the present survey, t**he outlook of respondents with regard to employment generation** noted worsening with only 18% respondents anticipating an increase in hiring, vis-à-vis 31% stating likewise in the previous round. Furthermore, 66% of the participants did not foresee any fresh hiring over the near term.

Key constraining factors for businesses

Significant increase noted in the proportion of respondents citing weak demand as a concern

(Proportion of respondents)

	Present Survey	Last Survey
% of respondents citing weak demand to be a concern	79%	46%

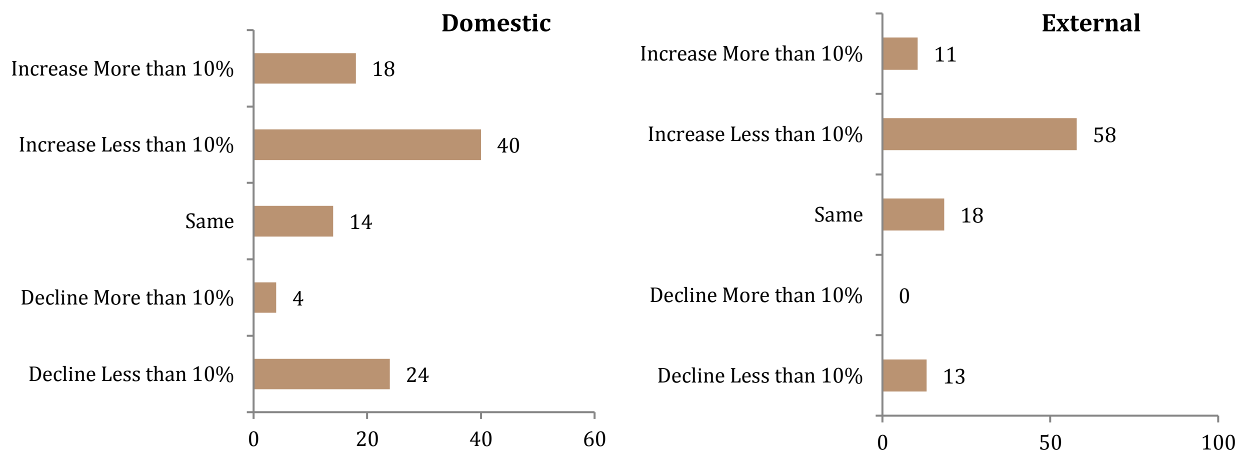
Weak demand has once again emerged as a bothering factor for the businesses. In the present survey round, 79% of respondents reported weak demand as an impediment for their companies. This was significantly higher than 46% stating likewise in the previous round.

In fact, demand situation was seen improving over the past few quarters and the proportion of respondents citing demand to be a constraining factor also noted a decline over the past three rounds of FICCI's Business Confidence Survey. The sudden shift in the trend can be attributed to the demand shock emanating from 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 near term; while 69% of the respondents expected external demand to increase over the next six months.

Demand situation over coming six months (January 2017 - June 2017)

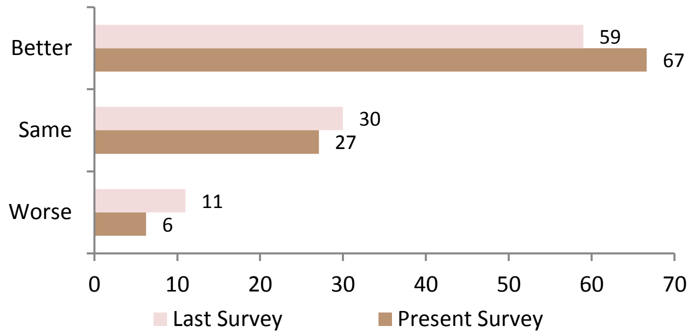
(Proportion of respondents)



Further, respondents were also optimistic about their order book position over the next six months. About 67% of the respondents anticipated a better order book position over the coming two quarters, vis-à-vis 59% stating likewise in previous round.

(Proportion of respondents)

Expected order book position over next two quarter



Credit Situation

Concerns over availability and cost of credit noted a decline in the current survey round

Availability of credit was reported to be a concern by 23% of the respondents, while 43% respondents reported cost of credit a bothering factor

(Proportion of respondents)

Credit	Present Survey	Last Survey
Availability	23	29
Cost	43	54

Reserve Bank of India has cut the repo rate by a total of 175 bps since January 2015. However, the transmission by banks has been limited. About 43 percent of the respondents stated cost of credit to be a worrisome factor in the present round, vis-à-vis 54% stating likewise in the last round. Further, the survey results indicate that on an average the companies are paying an interest rate of about 11.0% on working capital and term loans.

Some of the major banks finally made the move on January 1, 2017 by revising down their lending rates. Both consumption and investment demand are expected to benefit from this lowering of rates.

Threat of Imports

… marginal increase in proportion of respondents citing rising imports to be bothersome

(Proportion of respondents)

Threat of Imports	Present Survey	Last Survey
Yes	36	34
No	64	66

Top expectations from Union Budget 2017-18

Majority of respondents felt that the forthcoming Union Budget should FOCUS on….

- Stimulating demand for consumer goods
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Factors that will AID growth

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- Uptick in the US economy
- Lower interest rate
- New infrastructure projects taking off

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