



**Business
Confidence
Survey**

July 2016



HIGHLIGHTS

Overall Business Confidence Index declined in Q1 2016-17

Latest survey results indicate a dip in the sentiment of the respondents. The Overall Business Confidence Index slipped to 62.8 in the present round as compared to 64.3 in the previous survey round.

Index	Present Survey	Last Survey
Current Conditions	58.5	60.0
Expectations	65.0	66.5
OBC	62.8	64.3

Moderation was observed in results pertaining to the current situation as well as expectations for next six months.

Respondents cite deterioration in current conditions as well as expectations

Proportion of Respondents citing 'Moderately to Substantially Better' Performance

Current conditions vis-à-vis last six months

	Economy	Industry	Firm
Last Survey	50	45	54
Present Survey	48	45	51

Expectations over next six months

Last Survey	64	57	64
Present Survey	66	56	63

The latest survey reports a marginal decline in the assessment of respondents with regard to current conditions compared to last six months at the economy and firm level.

The proportion of respondents citing current economic conditions as 'moderately to substantially better' relative to previous two quarters declined to 48% in the present round. In the last survey, half of the participants had stated likewise.

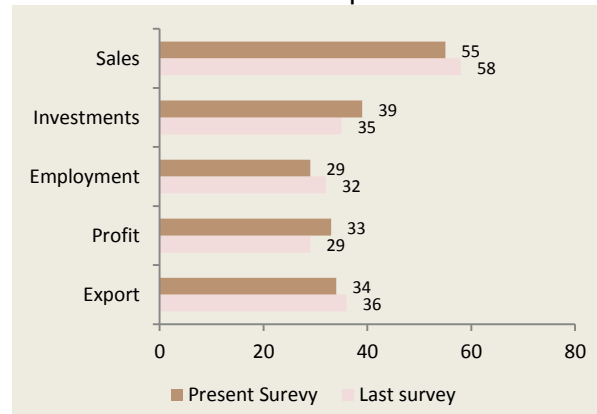
However, the survey results point towards improved outlook in near-term expectations of the respondents at the economy level. About 66% of the companies participating in the survey cited a 'moderately to substantially better' performance at the economy level over coming two quarters. The corresponding number was 64% in the previous round. At the industry and firm level, 56% and 63% of the respondents respectively reported a likely improvement in performance over near. This is marginally lower than the corresponding numbers observed in the previous survey round.

Survey results point towards some decline in confidence level of India Inc. This to some extent can be attributed to an uncertain global environment. Amidst this situation, it remains important to keep up the momentum on domestic front.

Outlook of respondents with regard to operational parameters

Results pertaining to operational parameters shows mixed results - while a pick up is anticipated in case of investments, and profits; parameters such as sales, employment and exports are likely to weaken.

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



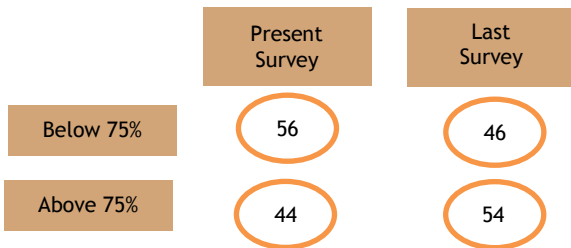
Outlook on investments improved in the current survey round with 39% participating companies indicating intentions of undertaking fresh investments. The corresponding number in the previous round was 35%. Likewise in the current round, about 33% respondents expect their profits to increase over next two quarters as compared to 29% stating the same in the last survey round.

Outlook on sales, however, was tepid with the proportion of respondents citing better sales prospects over next two quarters noticing a decline.

In the present survey, 44% participating companies indicated that they are operating at a capacity utilization rate of over 75%. In the previous survey, 54% respondents had stated the same. It needs to be noted that more than 50% of the respondents are still operating at below 75% capacity.

Capacity Utilization Rates

(Proportion of respondents)



Respondents were not too confident about hiring prospects over near term. About 29% respondents cited 'higher to much higher' employment levels over the next two quarters. The corresponding number in the previous round was 32%.

In addition, only 34% of the participating companies foresaw better prospects on the exports front vis-à-vis 36% stating likewise in the last round.

Key constraining factor for businesses

Rising raw material costs continues to be a challenge for many companies

(Proportion of respondents)



In the present survey, rising raw material prices were reflected to be a constraining factor by 46% of the respondents. While 48% companies had stated the same in the previous round, the corresponding figure a year back was 41%.

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

(Proportion of respondents)



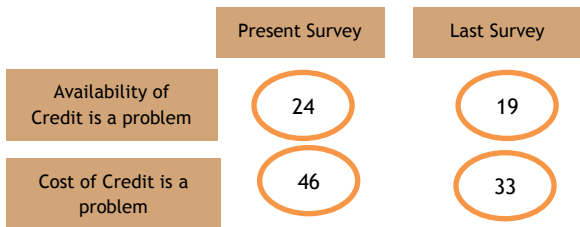
Demand situation has seen some improvement over the past few quarters. About 59% of the companies cited weak demand to be a concern in the current survey round as compared to 64% stating likewise in the last round. The corresponding number previous year was about 71%.

Further, 67% participating companies foresee an increase in domestic demand over near term (vis-à-vis 74% stating likewise in the last round); while 49% of the respondents expected external demand to increase over the next six months (vis-à-vis 58% stating likewise in the last round).

Credit Situation

The proportion of respondents citing availability and cost of credit to be a constraining factor noted an increase in the current around. 46% participants reported cost of credit to be a bothering factor in the present round. The corresponding number in the previous round was 33%.

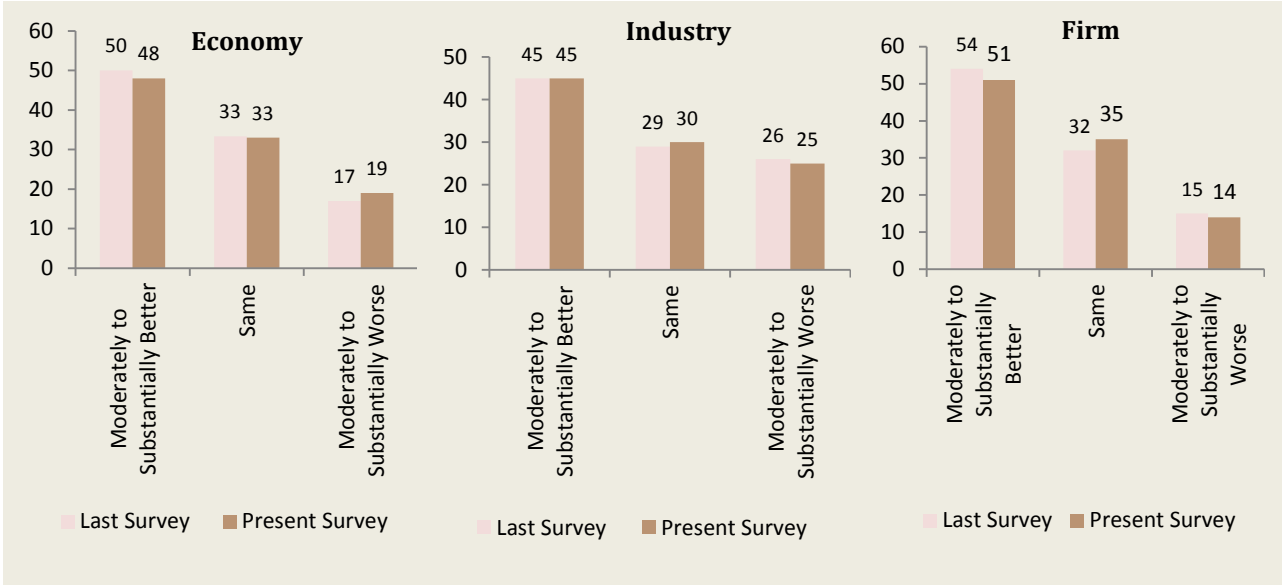
(Proportion of respondents)



Detailed Survey Findings

Current Conditions vis-à-vis last six months

(Proportion of respondents)

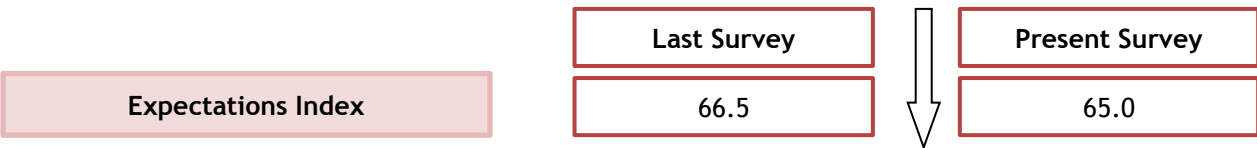
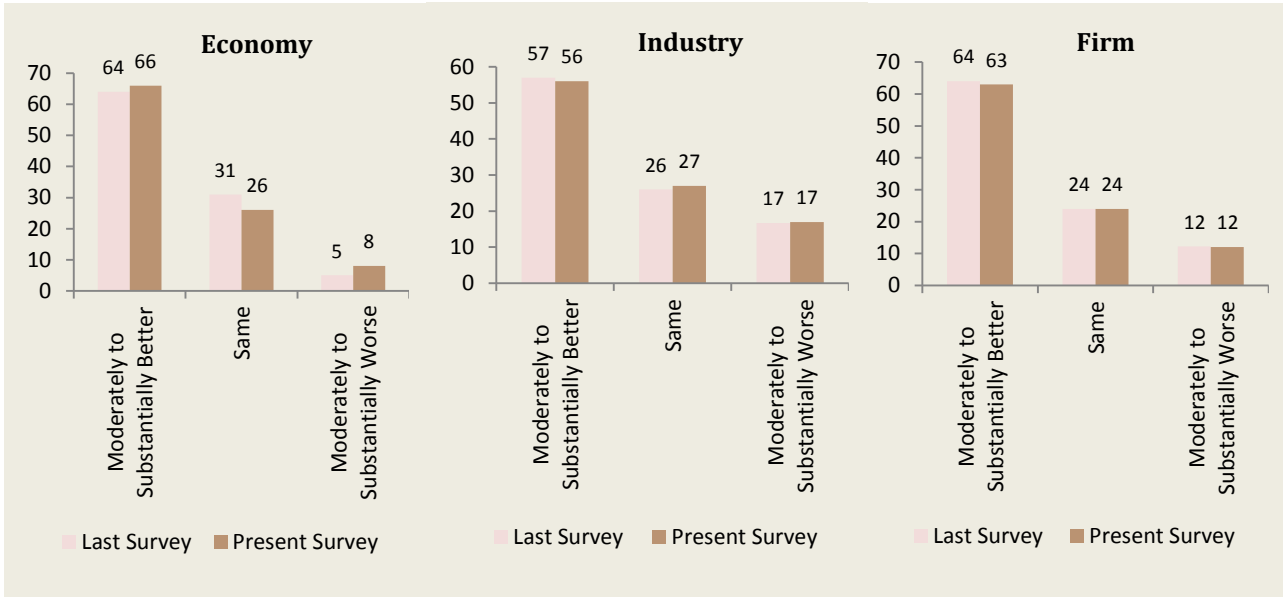


The latest survey conducted during the months of May and June 2016 reported a moderation in the confidence level of respondents with regard to current conditions compared to last six months at the economy and firm level.

The proportion of respondents citing current economic conditions as ‘moderately to substantially better’ relative to previous two quarters declined to 48% in the present round. In the last survey, half of the participating companies had stated likewise. The proportion of respondents citing improved conditions at the industry level relative to past two quarters remained the same at industry level.

Expected performance over next six months

(Proportion of respondents)



Survey results point towards improved outlook in near-term expectations of respondents at the economy level. While respondents appeared slightly optimistic at the economy level, the expectations of respondents at the industry and firm level have taken a beating.

About 66% of the companies participating in the survey cited a ‘moderately to substantially better’ performance at the economy level over the coming two quarters. The corresponding number was 64% in the previous round. However, at industry and firm level, 56% and 63% of respondents respectively expected a likely improvement in performance over near term. This is marginally lower than the corresponding numbers observed in the previous survey round.

Overall Business Confidence Index

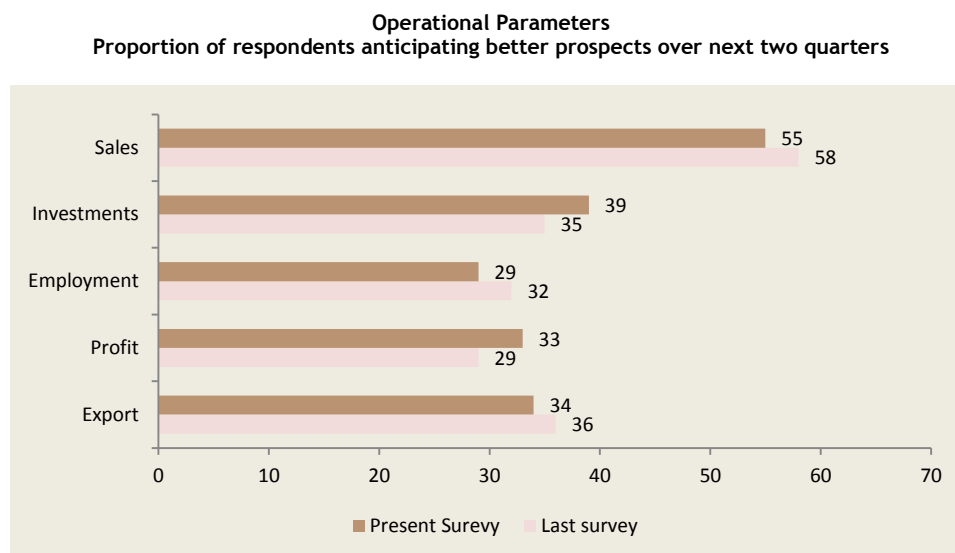


Latest survey results report some waning in confidence levels of respondents. The results pertaining to current situation as well as outlook for the coming six months have reported moderation. It will remain critical to constantly monitor the implementation of reforms announced so far and firm up domestic recovery.

Overall Business Confidence Index fell by 1.5 points in the present round and stood at 62.8. In the last survey, the Overall Business Confidence Index value was 64.3.

Outlook on operational parameters report mixed results

(Proportion of respondents)



Feedback received on operational parameters report mixed results - while a pick up is anticipated in case investments and profits; outlook on parameters such as sales, employment and exports indicates weakening.

While the government has been pushing public investments through budgetary allocations, a turnaround in the domestic private capex cycle remains critical for sustaining growth and jobs in the economy. Outlook on investments has marginally improved in the current survey round with 39% of the participating companies indicating intentions of undertaking fresh investments. The corresponding number in the previous round was 35%.

Participating companies also seemed upbeat about the outlook on profits. 33% of the respondents said that they foresee 'higher to much higher profits' over the next six months vis-à-vis 29% stating likewise in the previous survey round.

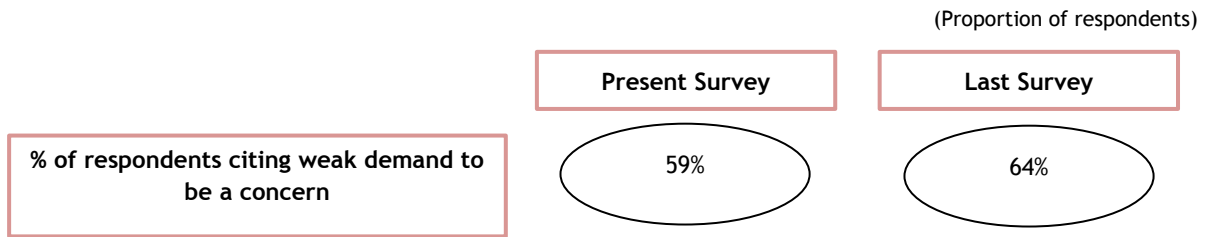
About 55% of the companies participating in the present survey cited an increase in sales over the next two quarters. The corresponding figure in the previous round was slightly higher at 58%.

Further, about 34% of the participating companies anticipated a fall export prospects over near term, vis-à-vis 36% stating likewise in the previous round.

The participating companies did not seem very optimistic with regard to employment prospects. About 29% respondents said that they are looking forward to hiring new employees. In the previous round 32% companies had stated the same.

Key constraining factors for businesses

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



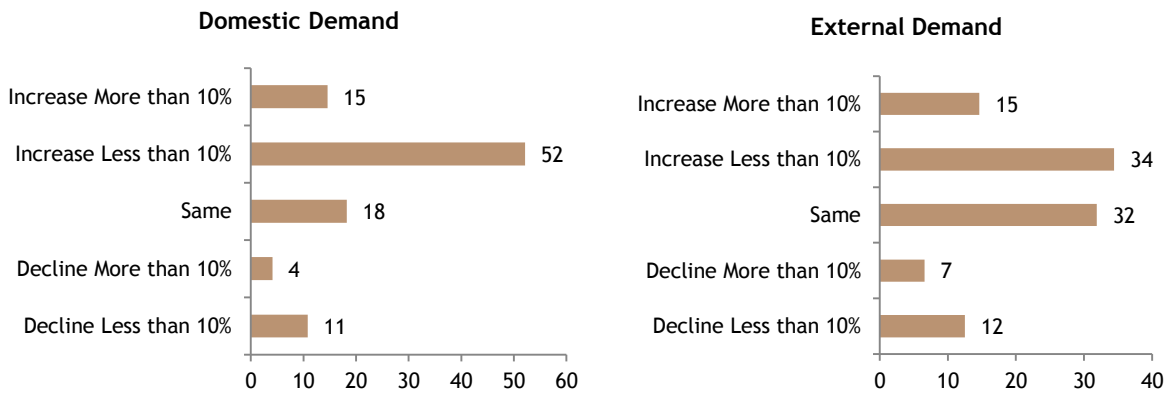
Weakness in demand has been cited as a major constraining factor by companies participating in the survey rounds. However, some signs of improvement are becoming evident.

About 59% of the companies participating in the present survey reported weak demand to be a worrying factor for businesses; in the last round 64% participants had stated the same.

Furthermore, 67% participating companies said that they foresee an increase in domestic demand over near term (vis-à-vis 74% stating likewise in the last round); while 49% respondents expected external demand to increase over the next six months (vis-à-vis 58% stating like in the last round).

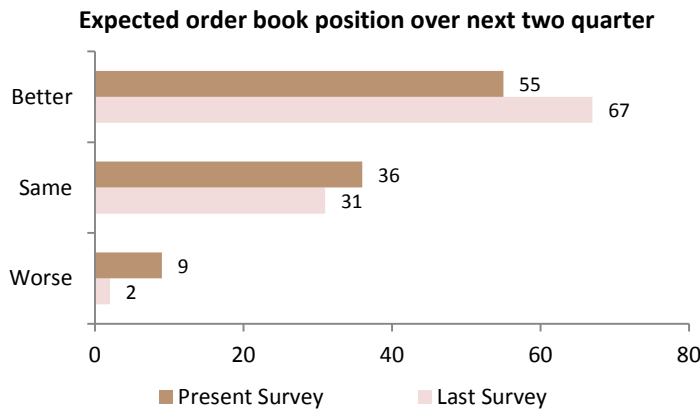
Demand outlook over coming six months
(July 2016 - December 2016)

(Proportion of respondents)



Expectation of respondents with regard to their order book position noted moderation. In the latest survey round, about 55% respondents anticipated a better order book position over the coming two quarters, vis-à-vis 67% stating likewise in previous round.

(Proportion of respondents)



Credit Situation

Availability of credit was reported to be a concern by 24% of the respondents, while 46% respondents reported cost of credit a bothering factor

(Proportion of respondents)

Credit	Present Survey	Last Survey
Availability	24	19
Cost	46	33

About 46% of the respondents stated cost of credit to be a worrisome factor in the present round, vis-à-vis 33% stating likewise in the last survey.

The Reserve Bank of India has revised down the repo rate by 150 bps between January 2015 and April 2016. Although the Government and Central Bank are taking measures to check the lending rates and ensure greater transmission by banks, cost of credit remains high.

With banks shifting to Marginal Cost Lending Rate regime from April 1, lending rates are expected to come down. Further, the government has decided to fix interest rates on small saving scheme on a quarterly basis and this should enable a reduction in lending rates by banks as small savings compete directly with bank deposits as an important avenue for savings.

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