Business Confidence Survey

November 2017

HIGHLIGHTS

Overall Business Confidence Index dips marginally

Latest survey results indicate a marginal dip in the overall sentiment of respondents. The Overall Business Confidence Index (OBCI) stood at 65.6 in the present round vis-à-vis a value of 66.1 in the previous survey round.

Index	Present Survey	Last Survey
Current Conditions	57.0	61.1
Expectations	69.9	68.7
OBCI	65.6	66.1

The initial hiccups from implementation of GST have affected business sentiment. Results pertaining to current conditions (vis-à-vis last six months) have noted moderation both at economy and industry level in the present survey.

As GST implementation smoothens the optimism is expected to return going ahead. This anticipation of participants is somewhat reflected in the marginal increase noted in the value of Expectations Index. The Government has been evaluating the problems being faced by the Industry on account of GST and has shown much responsiveness in addressing these.

Respondents cite better prospects over next two quarters

Proportion of Respondents citing ‘Moderately to Substantially Better’ Performance

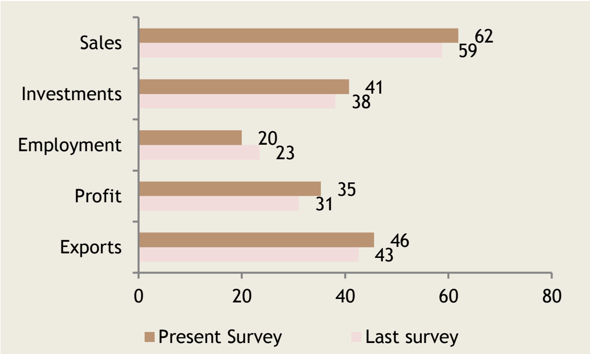
	Economy	Industry	Firm
	Current conditions vis-à-vis last six months		
Last Survey	59	45	55
Present Survey	53	44	55
	Expectations over next six months		
Last Survey	63	61	72
Present Survey	77	74	74

Latest survey results reported moderation in assessment of the respondents with regard to current conditions vis-à-vis last six months at the economy and industry level.

However, the participating companies seemed sanguine about near term prospects. The survey results reported an improvement in outlook of participants over the period October 2017-March 2018 at all three levels – economy, industry and firm.

Outlook of respondents with regard to operational parameters

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



Sales

In the present survey, 62% participating companies anticipated an increase in sales over the next two quarters. This was 3 percentage points higher than 59% companies stating likewise in the previous round.

The economy has gone through two significant structural changes over the past one year - demonetization and GST implementation. While these measures are expected to have a positive influence on the economy over medium to long run; as an immediate consequence consumption activity did witness a slowdown.

Nevertheless, sales prospects certainly look better going ahead. Already, some improvement has been reported in manufacturing sub segments such as two wheelers, three wheelers, commercial vehicles, tractors, goods carriers and FMCG.

Profits

Participating companies seemed a tad more positive about earning higher profits during October-March 2017-18. Proportion of respondents citing ‘higher to much higher profits’ increased to 35% in the present survey round vis-à-vis 31% stating likewise in the previous round. Growth is expected to pick up in the second half of the year as demand prospects look better and companies are adjusted to GST.

However, firming up of commodity prices especially oil and metals remains one of the key downside risks to earnings. Also, interest costs continues to be high for companies and remains one of the major stress points.

Investments

The survey results report a marginal improvement in the investment outlook of the respondents. In the current round, around 41% respondents anticipated 'higher to much higher' investments over the next two quarters. In the previous round, 38% participating companies had cited the same.

However, not much improvement was seen in capacity utilization rates and companies continue to grapple with excess capacity. In the current survey, about 46% of participating companies indicated a capacity utilization rate of over 75% as compared to 43% stating likewise in the previous round.

The participating companies were also asked to share their views on what really can change this scenario of muted private investments and encourage private sector to commit itself to greater investments.

A majority of the respondents highlighted high cost of interest to be a limiting factor. The participants opined that real rate of interests continue to be high in India and even though the Reserve Bank has lowered the repo rate by 200 bps since January 2015, the same has not been fully transmitted. The lending rates of banks have come down by about 88 bps only. It was felt that a further downward revision in the lending rates will help give a lift to both consumer and investor confidence.

As mentioned before demand has consistently been weak and this has been inhibiting fresh investments. While consumption activity is likely to pick up going ahead; however the respondents felt that there is a need to incentivize demand further.

Another concern area which was brought across by the participants unanimously was the need for consistency in government policy. The respondents felt that while the government has undertaken significant steps towards ensuring greater transparency and efficiency in policy frameworks; it is extremely imperative to assure consistency and certainty in announced policies. Frequent revisions and retrospective amendments create an environment of uncertainty that affects the decision of investors.

Another point raised by a majority of respondents was the urgent need to undertake labor reforms. The Government should chart out a framework of labor laws that gives adequate flexibility to enterprises, while incorporating appropriate safety and security net for the workers.

Exports

The latest survey results reported an improved outlook with respect to exports as well. About 46% respondents said that they foresee 'higher to much higher' outbound shipments over near term. The corresponding figure was 43% in the previous survey round.

While global economic situation has improved and trade prospects look much better this year; on the domestic front the exporters have been coping with the issues arising out of GST implementation. Serious concerns have been raised by exporters with regard to fall in working capital availability post GST due to massive delays in refunds. The government has taken a note of the issues being faced by the exporters and is working to redress these at the earliest. In fact, GSTN utility for exporters to claim refunds has recently been activated. This is likely to improve the liquidity concerns of exporters in coming months.

Employment

Employment generation, on other hand, is likely to remain muted with only 20% respondents showing interest in hiring new employees. The corresponding number in the previous round was 23%.

Key constraining factors for businesses

Proportion of respondents citing weak demand as a concern witnessed a decline

(Proportion of respondents)

	Present Survey	Last Survey
Respondents citing weak demand to be a concern	67	73

Even though a decline has been noted in the proportion of respondents citing weak demand to be a constraining factor for businesses, it still remains a major constraining factor for a majority of participants. About 67% companies participating in the present survey reported weak demand to be a worrying factor for their businesses; in the last round 73% participants had stated the same.

Furthermore, the respondents seemed more positive about their current order book position (vis-à-vis last six months) in the latest round as compared to previous survey. 53% respondents felt that their current order books position has improved vis-à-vis last six months. The corresponding number in the previous round was 40%.

A marginal increase was also noticed in the proportion respondents anticipating better order book over coming six months. 64% participating companies stated an improvement in their expected order book position in the current survey round vis-à-vis 62% stating likewise in previous round.

Credit Situation

Proportion of respondents citing cost of credit as a worrisome factor in the present survey round stood at 36%; which was not much different from 39% stating the same in the previous round.

Further, about 21% of the companies reported availability of credit as a major concern as compared to 29% stating the same in the previous round.

The survey findings indicate that the companies are paying an average interest rate of 10.87% on term loans and an average interest rate of 10.24% on working capital loans. In case of companies having a turnover less than Rs 500 crore the rate is a little higher at 11.2% for term loans. The corresponding rate for companies having a turnover of more than 500 crore was reported at 10.5%.

The central bank should consider cutting policy rates by at least 100 bps and the Government should work in tandem with RBI to enable reduction in lending rates. This will help propel demand for interest sensitive sectors such as consumer durables, auto and housing. Lower interest rates will also allow to maintain a competitive exchange rate, which is essential for growth of domestic industry.

Rising Cost of Raw Material

In the present survey, rising raw material prices were reflected to be a constraining factor by 56% of the respondents. The corresponding figure in the previous survey round was 45%. However, this was lower than 62% of participants stating the same a year back.

The Brent prices have moved to USD 64.49 for a barrel on Nov 10, 2017- which was the highest in over two years. Also, the prices of metals have moved vis-à-vis the last year. These developments will add to the cost pressure of companies and can affect the profit margins going ahead.

Industry's feedback on the implementation of Goods and Services Tax

With Goods and Services Tax (GST) running in its fifth month in November 2017, the respondents were asked to share their experience with regard to implementation of this tax reform. The participants were asked to indicate any issues that they are facing with respect to GST / GSTN and which they think the Government should look into on an urgent basis.

Filing of returns and Proper Functioning of Website

Participating companies unanimously agreed that though this tax reform is a game changer, there is an urgent need to address concerns regarding filing and proper functioning of the website. Respondents reported that the frequent technical glitches on the GSTN website is causing delays and duplication of efforts as they are required to refill the entire form again with every crash. The respondents called for simplification of procedures related to GST filing.

The participants felt that in its current form, GST rules and procedures are complex and cumbersome. The compliance burden is too much as multiple number of returns need to be filed. The participating companies suggested that the GSTN server must be expanded to handle greater load.

Better information dissemination

The industry felt that there is still lack of clarity on overall rules and regulations and greater government support is required on providing quick information.

Delayed refunds

The industry also expressed concern regarding tightening liquidity within the organization as refunds have been delayed. This has majorly impacted cash flows, especially of exporters and small and medium businesses. However, the government has recently launched a portal and has initiated the refund process for exporters.

Nonetheless, a majority of the participants were positive about the tax reform. The participants were also keen on inclusion of exempted items being included under the GST. They felt that a transformational reform like GST takes time to stabilize and hoped that things will get better, going forward. Respondents said that the government is aware of the problems and has been proactive in identifying and ironing out the challenges. Improvements in the operational framework can be expected over the near term.

Views on what further steps can be taken to strengthen growth

The respondents were asked to share views on what additional measures the government should focus on to enhance economic growth. According to the participants the following areas needed attention -

Maintaining a Competitive Exchange Rate

The participating companies indicated that exports have been under pressure because of the appreciating Rupee. It was suggested that measures must be taken to stem the rise in Rupee. The participants felt that at this point we need to depreciate the Rupee and aid exports.

Lower Rate of Interest

RBI must reduce the repo rate by 100 basis points immediately and banks must lower the lending rates by an equal amount. The respondents said there is a need for feel-good factor in the economy that would motivate people to buy and spend more.

Deepen Corporate Bond Market

The participating respondents highlighted the need to develop the corporate bond market. This remains extremely critical for India as the country continues to grapple with the challenge of garnering sufficient capital for funding its growth needs. A well-developed corporate bond market will ensure efficient allocation of capital. The deepening of bond market will also help in facilitating investments for India's ambitious infrastructure programme.

Focus on Innovation

The respondents also emphasized on the need to create a seamless innovation and R&D ecosystem in the country. Although this has been one of the priority areas of the Government, much needs to be done on this front. It was pointed out that India's ability to innovate will be one of the key determining factors for the country's success. It will be the most important tool for moving on the path of sustainable growth.

Continue to focus on Ease of Doing Business

While India improved its rank and jumped 30 places to 100 in the latest ease of doing business ranking, most of the respondents felt that greater efforts are needed to reduce bureaucracy and regulatory burden.

The respondents pointed out that the government can look at setting up more commercial courts at the district level to ensure quicker resolution of disputed contracts.

It was also suggested that in a federal system, better governance at the center does not guarantee effective governance at the state level. Therefore, it is essential that state governments also proactively pursue reforms and contribute towards ease of doing business. Finally, many respondents felt a need for greater responsibility and, more importantly, accountability of government officials to enhance governance.

Views on priority areas for the forthcoming Union Budget 2018-19

Union budget 2018-19 will be presented on February 1, 2018. In light of the commencement of the budget preparation, companies were asked to share their recommendations/ views for the same.

Rationalization of Tax Rates

The participating companies unanimously felt that there is a need for further simplification of tax rules and regulations, even though the government has been doing much on this front. The respondents believed that reduction of tax rates and simplification of taxes would help increase the tax base by bringing down the scope of arbitrary interpretations.

A significant majority of respondents also pointed out that a reduction in direct as well as indirect tax rates will have a positive bearing on the industry and the economy as a whole. A reduction in personal income tax will lead to higher disposable income in the hands of the consumers, thereby increasing their spending capacity. With demand conditions improving, capacity utilization is expected to pick up paving way for fresh investment activity. This accompanied by a reduction in corporate tax rates to 25%, as promised by the government, will strengthen the growth cycle.

The respondents felt that various initiatives of the government with regard to digitization are noteworthy and the government should continue to work towards stimulating digital payments to reduce generation of black money and ensure greater compliance.

On the indirect tax front, respondents indicated that although GST rates for many items have been downwardly revised, there is still scope for further relaxation. Additionally, most of the participants felt that all exempted items, especially petroleum products, must be included under GST. With many states charging a higher VAT, a single GST rate on petroleum products will not only unify but also bring down input costs throughout the country.

Incentivizing Exports

The participating companies were united on the need for incentivizing exports. The respondents are eagerly looking forward to the review of the Foreign Trade Policy, 2015, which has been long overdue.

The participants pointed out that a level playing field must be provided to domestic industry. Sectors such as capital goods, electronics and electricals, metals & minerals, textiles and tyres still reported prevalence of inverted duty structure. To address this issue, respondents called for a correction in the incidences of inverted duty structure.

A need was felt to revive the competitiveness of small and medium enterprises and to undertake a review of the Skill Development Mission.

Focus on Housing

Construction and real estate sectors constitute a big share in industrial activity. Construction activity slowed down considerably in 2016-17. Key sectors like housing can have a multiplier effect on demand creation across industries. Also policy concerns in specific sectors such as Steel, Cement and Power need to be addressed on a priority basis.

The government has already accorded infrastructure status to affordable housing in support of its commitment to provide 'Housing for All' by 2022. The participating companies felt that government should continue to give a push to affordable housing projects in the upcoming budget as well.

Focus on Agriculture and allied sectors

Agriculture and allied services sector must be protected against crisis and recurring distress. Respondents believe that one of the ways to achieve this is by promoting greater investments in the food processing sector. Farmers must be educated and trained on generating additional value from their produce which will not only reduce wastage but also generate higher income in return. Participants argued that promoting climate resilient farm technologies and bringing about regulatory infrastructure for contract farming will give a boost to agriculture and, in turn, the rural sector.

Ensuring Energy Security

India remains dependent on imports for meeting its energy requirements and its energy demand is expected to grow exponentially as the country treads forward on growth path. Government is aware of the task at hand is working towards making India energy resilient. Respondents opined that the government efforts on this front must be sustained.

Bank Consolidation

Companies participating the current survey round felt that government should continue to move forward with respect to bank consolidation. The Indian financial system remains highly fragmented and NPAs persist to be a major stress point for the economy. The merging of State Bank of India with its associates and Bharatiya Mahila Bank was a step in right direction and this process of consolidation should be carried forward to other banks as well. The merger of PSBs in to a few large banks would place Indian banks among the top global banks and would tremendously increase their competitiveness, scope and efficiency.

Survey Profile

The survey drew responses from about 160 companies with a turnover ranging from Rs 6 lakh to Rs 53,000 crore and belonging to a wide array of sectors. The survey was conducted during the month of October and gauges expectations of respondents for the period October 2017 to March 2018.

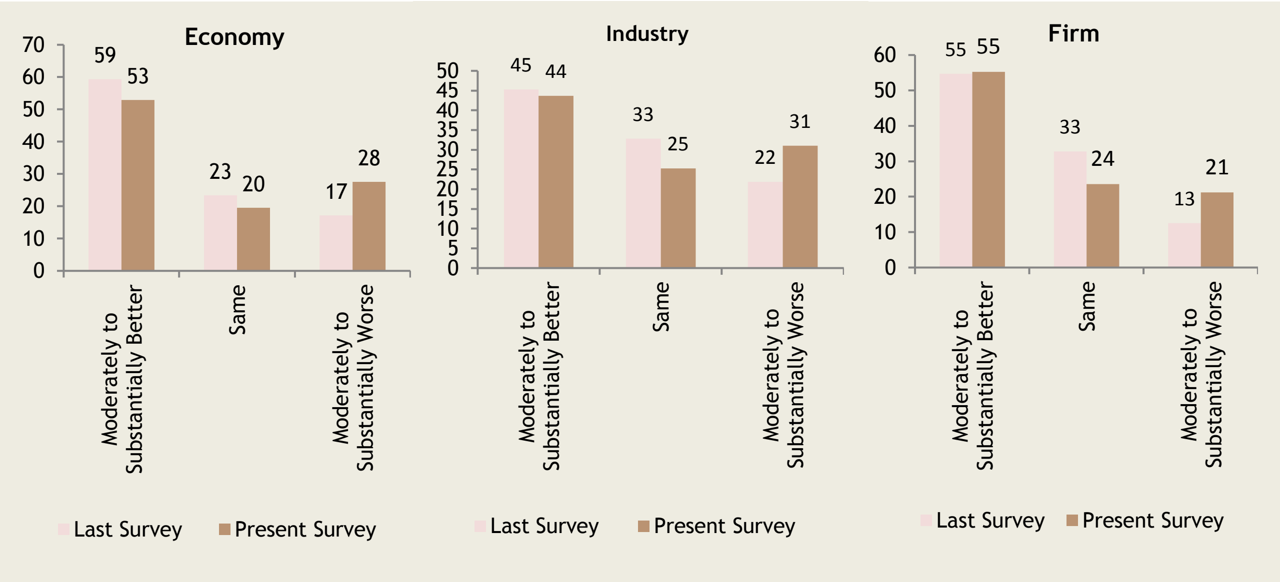
Broad Sectoral Coverage

Textiles	Food Processing	Chemicals	Real Estate
Pharmaceuticals	Machine Tools	Information Technology	Automobile
Steel & Steel Products	Leather & Leather Products	Financial Services	Electronic Products
	Media & Entertainment	Plastic & plastic products	

Detailed Survey Findings

Current Conditions vis-à-vis last six months

(Proportion of respondents)



	Last Survey	Present Survey
Current Conditions Index	61.1	57.0

Latest survey results reported moderation in assessment of the respondents with regard to current conditions vis-à-vis last six months at the economy and industry level.

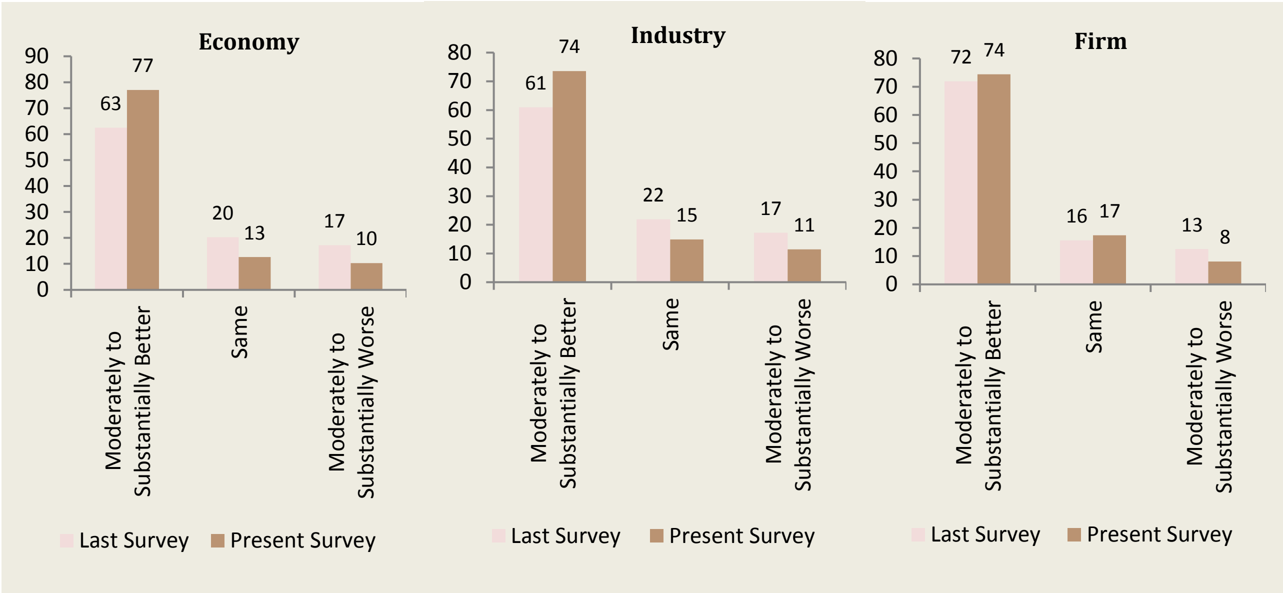
In the current round, about 53% participating companies cited ‘moderately to substantially better’ performance relative to previous two quarters at the economy level. The corresponding figure in the last survey was 59%.

Further, about 44% respondents felt that the current conditions at the industry level have improved compared to last six months. In the previous survey round, this number was marginally higher at 45%.

The proportion of participants citing the current conditions to have worsened vis-à-vis last six months increased by a few notches at all the three levels – economy, industry and firm.

Expected performance over next six months

(Proportion of respondents)



	Last Survey	Present Survey
Expectations Index	68.7	69.9

Nonetheless, the participating companies seemed sanguine about near term prospects. The survey results reported an improvement in outlook of participants over the period October 2017-March 2018 at all three levels – economy, industry and firm.

Around 77% of the companies participating in the survey reported that they expect the economy to do 'moderately to substantially better' over the coming two quarters. The corresponding number was 63% in the last survey round.

74% of the participating companies reported that they expect an improved performance both at the industry and firm level over the next two quarters. The corresponding numbers in the previous round were 61% and 72% respectively.

Overall Business Confidence Index

	Last Survey	Present Survey
OBCI	66.1	65.6

The initial hiccups from implementation of GST has affected business sentiment. Results pertaining to current conditions (vis-à-vis last six months) have noted moderation both at economy and industry level in the present survey.

As GST implementation smoothens the optimism is expected to return going ahead. This anticipation of participants is somewhat reflected in the marginal increase noted in the value of Expectations Index. The Government has been evaluating the problems being faced by the Industry and has shown much responsiveness in addressing these.

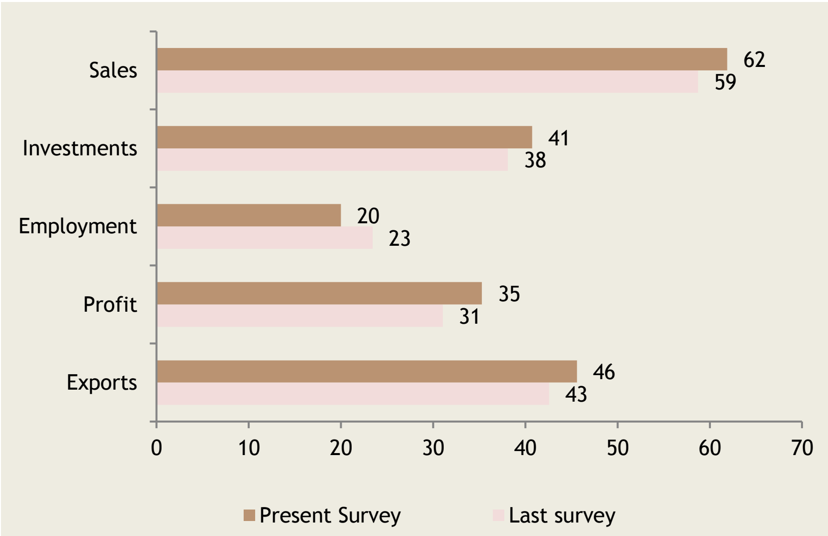
Overall Business Confidence Index (OBCI) reported a slight fall in the present round and stood at 65.6. In the last survey, the corresponding value was 66.1. The decline in overall OBCI value in the present round comes on back of a more evident fall noted in the Current Conditions Index.

Outlook on operational parameters report mixed results

Feedback received on operational parameters points towards some signs of recovery. Except employment, outlook on all other parameters - sales, investments, exports and profits – witnessed an improvement.

(Proportion of respondents)

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



Sales

In the present survey, 62% participating companies anticipated an increase in sales over the next two quarters. This was 3 percentage points higher than 59% companies stating likewise in the previous round.

The economy has gone through two significant structural chnages over the past one year - demonetization and GST implementation. While these measures are expected to have a positive influence on the economy over medium to long run; as an immediate consequence consumption activity did witness a slowdown.

Nevertheless, sales prospects certainly look better going ahead. Already, some improvement has been reported in manufacturing sub segments such as two wheelers, three wheelers, commercial vehicles, tractors and goods carriers. In fact, tractor sales have touched a record high in the first half of the current fiscal year. The FMCG sector has also reported some improvement in sales numbers.

While urban demand had been stable, rural demand was particularly impacted due to the currency ban. However, the impact of demonetization is waning and rural demand is seen gradually treading on the recovery course. The monsoons have been near normal this year and the increase in minimum support prices is also supporting the sentiment in rural areas. Also, companies that were undertaking destocking ahead of GST implementation are now seen as building up their stocks.

Profits

Participating companies seemed a tad more positive about earning higher profits during October-March 2017-18. Proportion of respondents citing 'higher to much higher profits' increased to 35% in the present survey round vis-à-vis 31% stating likewise in the previous round. Growth is expected to pick up in the second half of the year as demand prospects look better and companies adjust to GST.

However, firming up of commodity prices especially oil and metals remains one of the key downside risks to earnings. Also, interest costs continue to be high for companies and remains one of the major stress points. The same has been reiterated by companies for some time now.

Investments

The domestic capex cycle has been subdued and businesses have been working at sub-optimal levels amid an environment of weak demand. However, the survey results report a marginal improvement in the investment outlook of the respondents.

In the current round, around 41% respondents anticipated 'higher to much higher' investments over the next two quarters. In the previous round, 38% participating companies had cited the same.

In addition, the proportion of respondents citing lower investments over next six months noted a decline. About 11% participants said that they foresee lower investments during the period October to March 2017-18. This was 7 percentage points lower than the proportion of participants stating likewise in the previous round.

However, not much improvement was seen in capacity utilization rates and companies continue to grapple with excess capacity. In the current survey, about 46% of the participating companies indicated a capacity utilization rate of over 75% as compared to 43% stating likewise in the previous round.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	54	57
Above 75%	46	43

Government's recent announcement giving Rs 6.92 trillion (which will be spread over the next five years) push to infrastructure sector is well timed. The thrust given to public investments bodes well for near to medium term prospects of the economy and will also help crowd in private investments.

The participating companies were also asked to share their views on what really can change this scenario of muted private investments and encourage private sector to commit itself to greater investments.

A majority of the respondents highlighted high cost of interest to be a limiting factor. The participants opined that real rate of interests continue to be high in India and even though the Reserve Bank has lowered the repo rate by 200 bps since January 2015, the same has not been transmitted fully. The lending rates have come down by about 88 bps only. It was felt that a further downward revision in the lending rates will help give a lift to both consumer and investor confidence.

As mentioned before demand has consistently been weak and this has been inhibiting fresh investments. Although consumption activity is likely to pick up going ahead, the respondents felt that there is a need to further incentivize demand.

Another concern area which was brought across by the participants unanimously was the need for consistency in government policy. The respondents felt that while the government has undertaken significant steps towards ensuring greater transparency and efficiency in policy frameworks, it is extremely imperative to assure consistency and certainty in announced policies. Frequent revisions and retrospective amendments create an environment of uncertainty that affects the decision of investors.

Another point raised by a majority of respondents was the urgent need to undertake labor reforms. The Government should chart out a framework of labor laws that gives adequate flexibility to enterprises, while incorporating appropriate safety and security net for the workers.

Exports

The latest survey results reported a marginally improved outlook with respect to exports. About 46% respondents said that they foresee 'higher to much higher' outbound shipments over near term. The corresponding figure was 43% in the previous survey round.

The latest data released by the Ministry of Commerce exhibits contraction in exports in the month of October 2017. While global economic situation has improved and trade prospects look much better this year, on the domestic front the exporters have been coping with the issues arising out of GST implementation. Serious concerns have been raised by exporters with regard to fall in working capital availability post GST due to massive delays in refunds. The government has taken a note of the issues being faced by the exporters and is working to redress these at the earliest. In fact, GSTN utility for exporters to claim refunds has recently been activated. This is likely to improve the liquidity concerns of exporters in coming months.

Employment

Employment generation is likely to remain muted with only 20% respondents showing interest in hiring new employees. The corresponding number in the previous round was 23%.

Key constraining factors for businesses

Increase in the proportion of respondents citing weak demand as a concern

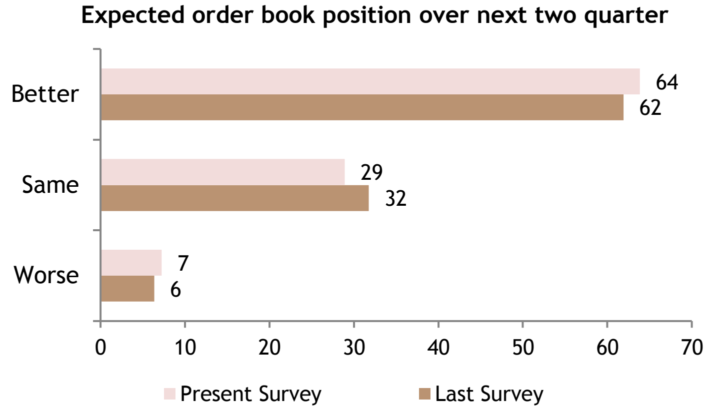
(Proportion of respondents)

	Present Survey	Last Survey
% of respondents citing weak demand to be a concern	67	73

Even though a decline has been noted in the proportion of respondents citing weak demand to be a constraining factor for businesses, it still remains a major constraining factor for a majority of participants. About 67% companies participating in the present survey reported weak demand to be a worrying factor for their businesses; in the last round 73% participants had stated the same.

Furthermore, the respondents seemed more positive about their current order book position (vis-à-vis last six months) in the latest round as compared to previous survey. 53% respondents felt that their current order books position has improved vis-à-vis last six months. The corresponding number in the previous round was 40%.

A marginal increase was also noticed in the proportion respondents anticipating better order book over coming six months. 64% participating companies stated an improvement in their expected order book position in the current survey round vis-à-vis 62% stating likewise in previous round.



Credit Situation

Availability of credit was reported to be a concern by 21% of the respondents, while 33% respondents reported cost of credit a bothering factor

(Proportion of respondents)

Credit	Present Survey	Last Survey
Availability	21	29
Cost	33	39

Proportion of respondents citing cost of credit as a worrisome factor in the present survey round stood at 36%; which was not much different from 39% stating the same in the previous round. Further, about 21% of the companies reported availability of credit as a major concern as compared to 29% stating the same in the previous round.

The survey findings indicate that the companies are paying an average interest rate of 10.87% on term loans and an average interest rate of 10.24% on working capital loans. In case of companies having a turnover less than Rs 500 crore the rate is a little higher at 11.2% for term loans. The corresponding rate for companies having a turnover of more than 500 crore was reported at 10.5%.

The lending rate remains above the comfort level of the companies and needs to be brought down urgently. The Reserve Bank of India has cut the repo rate by 200 bps since January 2015, however the process of transmission has not been complete.

The central bank should consider cutting policy rates by at least 100 bps and the Government should work in tandem with RBI to enable reduction in lending rates. This will help propel demand for interest sensitive sectors such as consumer durables, auto and housing. Lower interest rates will also allow to maintain a competitive exchange rate, which is essential for growth of domestic industry.

Raw material costs challenge for 56% respondents

(Proportion of respondents)

	Present Survey	Last Survey
% of respondents citing raw material costs to be a concern	56	45

In the present survey, rising raw material prices were reflected to be a constraining factor by 56% of the respondents. The corresponding figure in the previous survey round was 45%. However, this was lower than 62% of participants stating the same a year back.

The Brent prices have moved to USD 64.49 for a barrel on Nov 10, 2017- which was the highest in over two years. Also, the prices of metals have moved vis-à-vis the last year. These developments will add to the cost pressure of companies and can affect the profit margins going ahead.

Industry's feedback on the implementation of Goods and Services Tax

With Goods and Services Tax (GST) running in its fifth month in November 2017, the respondents were asked to share their experience with regard to implementation of this tax reform. The participants were asked to indicate any issues that they are facing with respect to GST / GSTN and which they think the Government should look into on an urgent basis.

Filing of returns and Proper Functioning of Website

Participating companies unanimously agreed that though this tax reform is a game changer, there is an urgent need to address concerns regarding filing and proper functioning of the website. Respondents reported that the frequent technical glitches on the GSTN website is causing delays and duplication of efforts as they are required to refill the entire form again with every crash. The respondents called for simplification of procedures related to GST filing.

The participants felt that in its current form, GST rules and procedures are complex and cumbersome. The compliance burden is too much as multiple number of returns needs to be filed. The participating companies suggested that the GSTN server must be expanded to handle greater load.

Better information dissemination

The industry felt that there is still lack of clarity on overall rules and regulations and greater government support is required on providing quick information.

Delayed refunds

The industry also expressed concern regarding tightening liquidity within the organization as refunds have been delayed. This has majorly impacted cash flows, especially of exporters and small and medium businesses. However, the government has recently launched a portal and has initiated the refund process for exporters.

Nonetheless, a majority of the participants were positive about the tax reform. The participants were also keen on inclusion of exempted items being included under the GST. They felt that a transformational reform like GST takes time to stabilize and hoped that things will get better, going forward. Respondents said that the government is aware of the problems and has been proactive in identifying and ironing out the challenges. Improvements in the operational framework can be expected over the near term.

Views on what further steps can be taken to strengthen growth

The government has taken a series of measures including reduction in GST rates on a series of items, cut in the excise rates on petroleum products and advancing the planned capex by PSUs to give a thrust to growth. In addition, the government also recently announced a massive Rs. 9 lakh crore package towards infrastructure spending and recapitalization of public sector banks. Going ahead, these steps are expected to bode well for the economy.

The respondents were asked to share views on what additional measures the government should focus on to enhance economic growth. According to the participants the following areas needed attention -

Competitive Exchange Rate

The participating companies indicated that exports have been under pressure because of the appreciating Rupee. It was suggested that measures must be taken to stem the rise in Rupee. The participants felt that at this point we need to depreciate the Rupee and aid exports.

Lower Rate of Interest

The participating companies felt that given persistence of weak demand and excess capacity, assuring a turnaround in private investments will be a challenge. The respondents felt that lowering the lending rates will give a positive signal to the industry community.

RBI must reduce the repo rate by 100 basis points immediately and banks must lower the lending rates by an equal amount. The respondents said there is a need for feel-good factor in the economy that would motivate people to buy and spend more.

Deepen Corporate Bond Market

The participating respondents highlighted the need to develop the corporate bond market. This remains extremely critical for India as the country continues to grapple with the challenge of garnering sufficient capital for funding its growth needs. A well-developed corporate bond market will ensure efficient allocation of capital. The deepening of bond market will also help in facilitating investments for India’s ambitious infrastructure programme.

Focus on Innovation

The respondents also emphasized on the need to create a seamless innovation and R&D eco system in the country. Although this has been one of the priority areas of the Government, much needs to be done on this front. It was pointed out that India’s ability to innovate will be one of the key determining factors for the country’s success. It will be the most important tool for moving on the path of sustainable growth.

Continue to focus on Ease of Doing Business

While India improved its rank and jumped 30 places to 100 in the latest ease of doing business ranking, most of the respondents felt that greater efforts are needed to reduce bureaucracy and regulatory burden. India noted an improvement in six out of ten parameters, however, the country continued to perform poorly in dealing with construction permits, enforcing contracts and registering property.

The respondents pointed out that the government can look at setting up more commercial courts at the district level to ensure quicker resolution of disputed contracts.

It was also suggested that in a federal system, better governance at the centre does not guarantee effective governance at the state level. Therefore, it is essential that state governments also proactively pursue reforms and contribute towards ease of doing business. Finally, many respondents felt a need for greater responsibility and, more importantly, accountability of government officials to enhance governance. They said that staffing requirements and the general working of various departments must be regularly assessed.

Views on priority areas for the forthcoming Union Budget 2018-19

Union budget 2018-19 will be presented on February 1, 2018. In light of the commencement of the budget preparation, companies were asked to share their recommendations / views for the same.

Rationalise Tax Rates

The participating companies unanimously felt that there is a need for further simplification of tax rules and regulations; even though the government has been doing much on this front. The respondents believed that simplification of taxes would bring down the scope of arbitrary interpretations.

A signficant majority of respondents also pointed out that a reduction in direct as well as indirect tax rates will have a positive bearing on the industry and the economy as a whole. A reduction in personal income tax will lead to higher disposable income in the hands of the consumers, thereby increasing their spending capacity. With demand conditions improving, capacity utilization is expected to pick up paving way for fresh investment activity. This accompanied by a reduction in corporate tax rates to 25%, as promised by the government, is likely to churn the growth cycle.

The respondents felt that various initiatives of the government with regard to digitization are noteworthy and the government should continue to work towards stimulating digital payments to reduce generation of black money and ensure greater compliance.

On the indirect tax front, respondents indicated that although GST rates for many items have been revised downwards, there is still scope for further relaxation. Additionally, most of the participants felt that all exempted items, especially petroleum products, must be included under GST. With many states charging a higher VAT, a single GST rate on petroleum products will not only unify but also bring down input costs throughout the country.

The participants said that GST is an extremely progressive tax reform, however huge compliance burden has made it cumbersome. Participants believed that compliance under GST can be made simpler by allowing for quarterly filing of returns rather than the practice of filing monthly returns prevalent now.

Incentivise Exports

The participating companies were united on the need for incentivizing exports. The respondents are eagerly looking forward to the review of the Foreign Trade Policy, 2015, which has been long overdue.

The participants pointed out that a level playing field must be provided to domestic industry. Sectors such as capital goods, electronics and electricals, metals & minerals, textiles and tyres still reported prevalence of inverted duty structure. To address this issue, respondents called for a correction in the incidences of inverted duty structure.

A need was felt to revive the competitiveness of small and medium enterprises and to undertake a review of the Skill Development Mission.

Focus on Housing

Construction and real estate sectors constitute for a big share in industrial activity. Construction activity slowed down considerably in 2016-17. Key sectors like housing can have a multiplier effect on demand creation across industries. Also policy concerns in specific sectors such as Steel, Cement and Power need to be addressed on a prioirty basis.

The government has already accorded infrastructure status to affordable housing in support of its commitment to provide ‘Housing for All’ by 2022. The participating companies felt that government should continue to give a push to affordable housing projects in the upcoming budget as well.

Focus on Agriculture and allied sectors

Agriculture and allied services sector must be protected against crisis and recurring distress. Respondents believe that one of the ways to achieve this is by promoting greater investments in the food processing sector. Farmers must be educated and trained on generating additional value from their produce which will not only reduce wastage but also generate higher income in return. Participants argued that promoting climate resilient farm technologies and bringing about regulatory infrastructure for contract farming will give a boost to agriculture and, in turn, the rural sector.

Ensuring Energy Security

India remains dependent on imports for meeting its energy requirements and its energy demand is expected to grow exponentially as the country treads forward on growth path. Government is aware of the task at hand and is working towards making India energy resilient. Respondents opined that the government efforts on this front must be sustained.

Promoting Bank Consolidation

Companies participating the curent survey round felt that government should continue to move forward with respect to bank cosolidation. The Indian financial system remains highly fragmented and NPAs persist to be a major stress point for the economy. The merging of State Bank of India with its associates and Bharatiya Mahila Bank was a step in right direction and this process of consolidation should be carried forward to other banks as well. The merger of PSBs in to a few large banks would place Indian banks among the top global banks and would tremendously increase their competitiveness, scope and efficiency.

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