Business Confidence Survey

February 2019

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Summary

Overall Confidence Index slips for the fourth consecutive quarter

Weak demand reported as a major concern by industry participants

Overall Business Confidence Index drops to 60.3

- The latest round of FICCI's Business Confidence Survey revealed a moderation in the optimism level of members of India Inc for the fourth straight quarter***. The Overall Business Confidence Index stood at 60.3 in the current round vis-à-vis an index value of 61.9 reported in the last survey.*** Moderation in both current conditions as well as expectations pulled the overall index value down during the quarter.

- ***In the present round, a significantly higher proportion of respondents cited worsening in the demand situation***. In the current survey, 60% participants reported weak demand conditions as a bothering factor - which was much higher than 49% respondents stating likewise in the previous round. To exacerbate the problem, participants have indicated an increase in threat from imports. About 31% cited rising threat from imports in the current survey as compared to only 25% stating the same in the previous round.

Weak demand a worrisome factor for industry participants

- Additionally, even though a moderation was seen in the percentage of respondents indicating higher cost of raw materials as a concern, the proportion still remained high. About ***half of the participating companies stated higher raw material costs as a bothering factor in the present survey round. This was, however, an improvement over the previous survey round where 76% participants had stated likewise***. While the fall in inputs costs bodes well for the industry – expectation of volatility in energy costs, particularly crude oil prices can hamper this optimism going ahead.

- The survey results allude to a marginal improvement in outlook for investments. ***Around 36% participants said that they foresee higher to much higher investments over coming six months vis-à-vis 32% stating likewise in the last survey.***

Near term investment and profits outlook improves

- ***Companies are also positive about their forecasts for profit over the next six months***. In the current survey round, around 32% of the surveyed companies said that they foresee higher to much higher profits over next two quarters. The corresponding number in the previous survey was 27%.

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- The outlook on employment also witnessed some improvement in the present survey. About 26% participating companies said that they foresee a rise in hiring activity over coming six months vis-à-vis 20% citing the same in the previous round.

- However, the outlook of participating companies on sales and exports noted deterioration. Around 49% respondents cited better sales prospects over next six months in the present survey vis-à-vis 61% participants stating the same in the previous round. Likewise, 31% respondents cited higher outbound shipments over the next two quarters. The corresponding number in the previous round was 39%.

The respondents were also asked to share their opinion on certain contemporary issues such as their assessment of the liquidity in the financial system, ways to enhance job creation and what should be the top policy priorities for the government in 2019.

Assessment and steps to improve liquidity in the financial system

- While some respondents found liquidity conditions adequate, particularly after the consistent open market operations (OMO) undertaken by the RBI, however, a majority of participants asserted that despite OMOs, liquidity in the system remains tight.
- Most of the dissenting participants felt that banks remain wary to lend to companies amidst the ongoing process of resolution of stressed balance sheets.
- Participating companies suggested that RBI, in addition to conducting OMOs, must consider utilizing other tools to boost liquidity in the system.
- Respondents felt that continued support is required for NBFCs as they are a major source of funding for small and medium enterprises and the housing sector.
- Surveyed participants felt that banks must extend working capital loans against lower collateral requirements.
- Companies want government to ensure that GST refunds are streamlined and the formalities are made less cumbersome. This would also help in easing some of their liquidity concerns.

Respondents foresee better employment prospects over the next six months….

Prospects of sales, selling price and exports, however, deteriorated

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Views on ways to enhance job creation

- Respondents believed that creation of jobs is highly correlated to the pace of economic activity. It was suggested that the government prepares sector wise plans and identify growth enablers for each sector.
- Greater focus must be laid upon labor intensive industries such as textiles and apparels, leather, gems & jewellery, tourism and construction.
- Respondents felt a dire need for a comprehensive 'Industry and Trade Policy' for the country - without which the core objectives of Make In India cannot be achieved.
- Respondents also called for export incentives to boost manufacturing exports from the country.
- A majority of companies highlighted that imparting vocational skills and training to the workforce is the need of hour. The issue of skills mismatch remains unaddressed.
- Citing other measures, participating companies opined that timely resolution/ restructuring of corporate balance sheets will improve capacity utilization and create additional jobs.
- Participants felt that more measures must be taken to enhance ease of doing business in the country. Labor laws must be upgraded and be made more industry friendly.

Sectoral outlook and top three policy priorities of the government in 2019

- A majority of the participating companies seemed sanguine about the outlook of their respective sectors in 2019.
- Participants believed that India is in a good spot and the growth momentum is likely to gain strength going ahead. However, they did express some concern over the impending uncertainty on account of forthcoming elections.
- The participants also mentioned that possibility of energy costs escalating once again and frictional losses due to various compliance requirements remain bothering factors.
- As for the top policy priorities for government in 2019, a majority of surveyed companies cited provision of greater export incentives, continued focus on ease of doing business, revisiting of labor laws and structural reforms in the rural and farming economy as the main action areas on the policy front. It was also highlighted that certainty and stability with regard to policies is of utmost importance.

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- Participating companies felt that reinitiating pending infrastructure projects and creation of a skilled and healthy workforce must also be given sufficient attention during the year.
- Moreover, the Make In India policy must be given more teeth to support domestic manufacturing and private investments on a large scale. In this context, respondents called for an early announcement of long awaited Industrial Policy.
- The wish list on policy front also included simplification and streamlining of GST, quick resolution of existing tax litigations, ensuring a stable exchange rate regime and push for greater private sector participation in building defence equipment.
- Finally, participating companies believed that preserving environment must be given due emphasis and steps must be taken to ensure clean and green manufacturing in the country.

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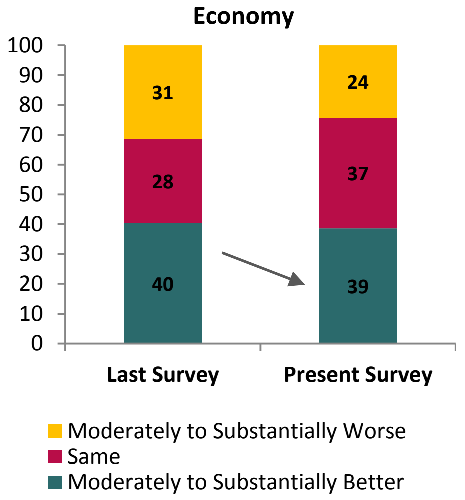
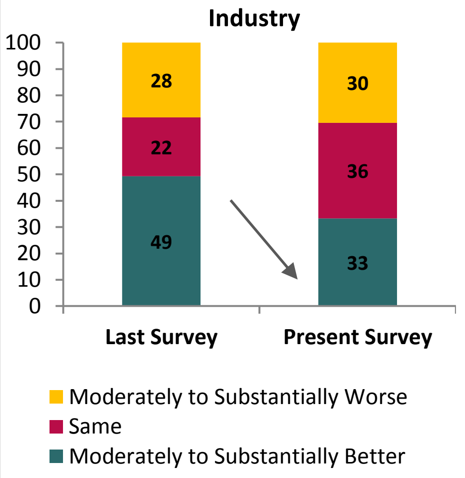
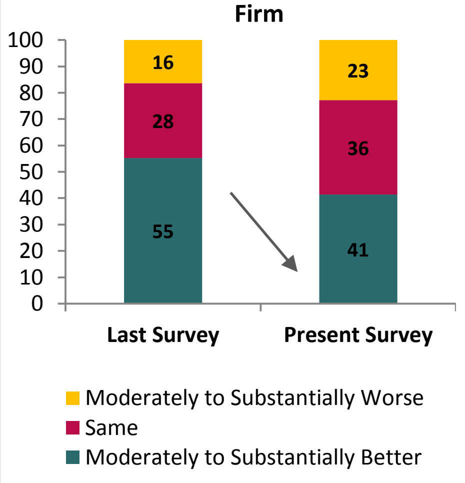
Current conditions vis-à-vis last six months







Assessment of respondents with regard to current conditions report moderation at all three levels vis-à-vis previous two quarters….

FICCI's latest Business Confidence Survey reports a moderation in the assessment of respondents with regard to current conditions at all three levels - economy, industry and firm - compared to last six months.

In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined marginally to 39% vis-à-vis 40% respondents stating likewise in the previous round.

About 33% respondents at industry level reported improved current conditions vis-à-vis last six months as compared to 49% participants reporting likewise in the previous round.

At firm level, 41% respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months. This was lower than 55% participants reporting likewise in the previous survey.

An increase was noticed in the proportion of participants reporting current conditions to have worsened relative to last six months at the industry and firm level.

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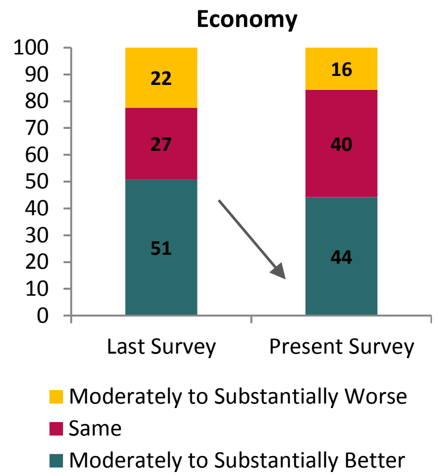
Expected conditions over next six months

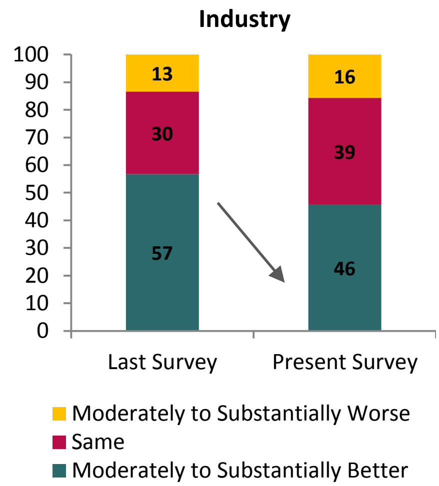
Results of the latest survey report moderation in optimism level of respondents about near term prospects as well.

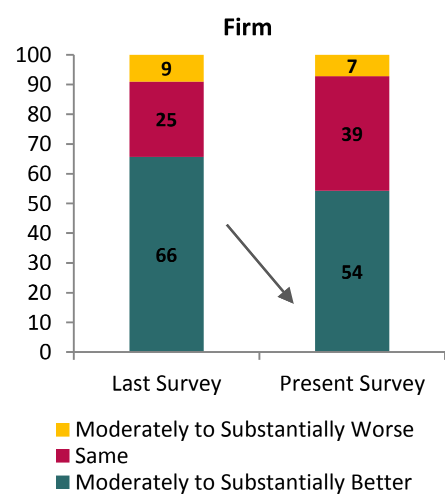
At the economy level, the proportion of respondents foreseeing ‘moderately to substantially better’ performance over next six months moderated to 44% in the current round compared to 51% participants reporting likewise in the previous survey.

At the industry level, 46% of the participating companies expected a ‘moderately to substantially better’ performance over the next two quarters in the current survey as compared 57% stating the same in the previous round.

Likewise, 54% of the surveyed companies reported that they expect an improved performance over coming six months at firm level. The corresponding number in the previous round was much higher at 66%.







Respondents report moderation in expectations with regard to performance over the period January – June 2019….

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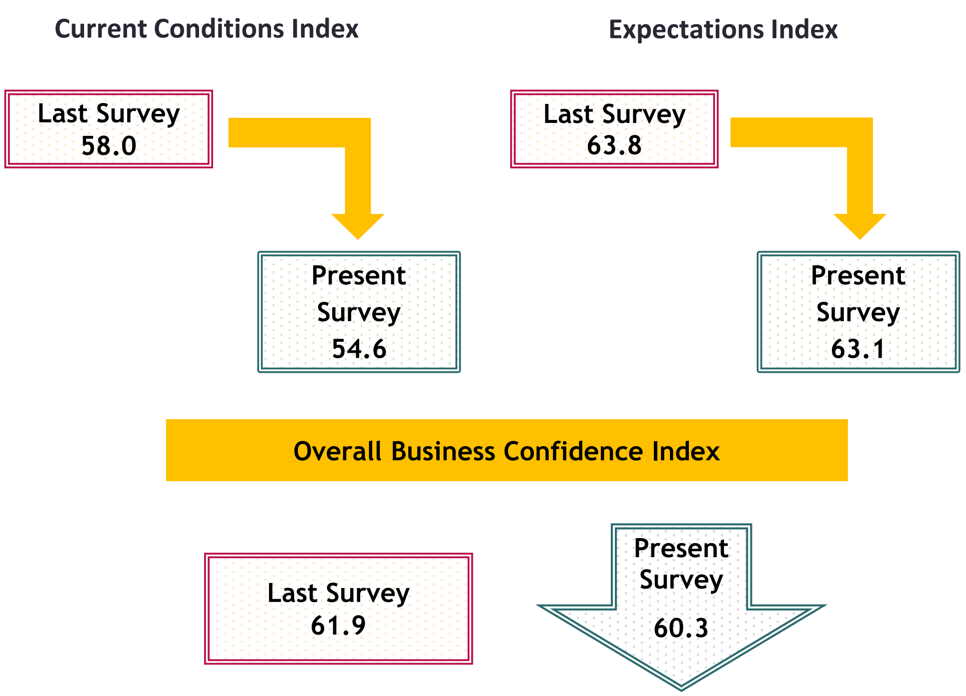
Business Confidence Index

OBCI further dipped to 60.3 in the current survey vis-à-vis a value of 61.9 noted in the previous round…

…Moderation in both Current Conditions Index and Expectations Index has led to the decline

Overall Business Confidence Index



Overall Business Confidence Index fell in the present round and stood at 60.3. The corresponding number in the previous round was 61.9. This was the fourth consecutive quarter when confidence levels witnessed a decline.

The assessment of respondents with regard to current conditions as well as expectations remained subdued in the latest survey round.

The global economy is likely to witness moderation in 2019 as economic activity in key advanced economies such as United States, Germany, Spain, Portugal, Finland is expected to slowdown. Persistent trade tensions and slowing demand (both external and domestic) continue to pose as downside risks for the Indian economy. On the domestic side, rise in cheaper imports is also one of the major concerns for the economy.

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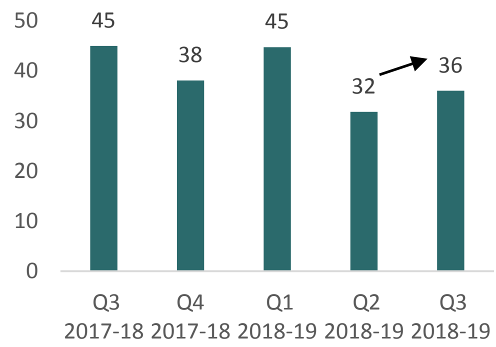
Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments in the coming six months witnessed a marginal improvement in the current survey vis-à-vis the previous round.

In the current survey, about 36% participating companies anticipated an increase in investments over the coming six months. The corresponding number in the previous round was 32%.

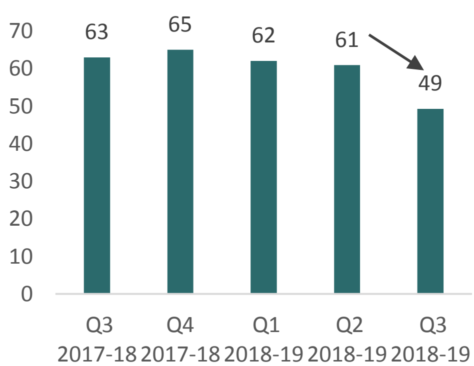
(Proportion of respondents)



Investment outlook improves….

Sales

(Proportion of respondents)



Latest survey results report sharp moderation in the outlook of respondents with respect to sales.

Only 49% participating companies anticipated an increase in sales over next two quarters, vis-à-vis 61% respondents stating likewise in the previous round. This was the lowest in about eight quarters.

Sharp moderation in near term sales prospects…

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Operational Parameters

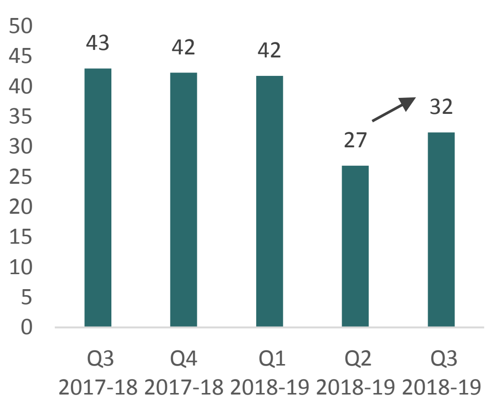
Profits

Survey results indicate an improvement in the outlook on profits…

In the present round, an improvement was noticed in the profit outlook of companies. Proportion of respondents citing higher profits over next six months rose to 32% in the latest survey from 27% respondents stating likewise in the previous round.

Lower cost of production on back of moderating raw material prices and a more stable exchange rate might have led to an improved outlook on profits of corporate India.

(Proportion of respondents)



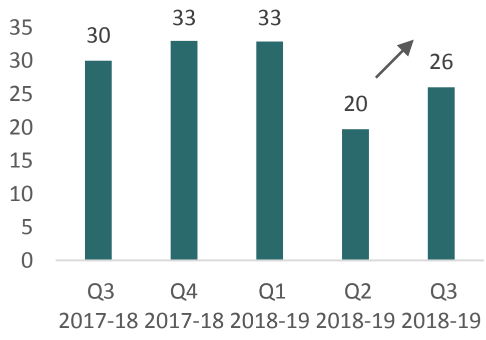
Employment

….and suggests better employment prospects too

As per the latest survey results, outlook on employment generation also reported some improvement after witnessing moderation in the previous quarter.

In the present round, about 26% respondents said that they foresee hiring new employees over the next six months vis-à-vis only 20% stating the same in the previous round.

(Proportion of respondents)

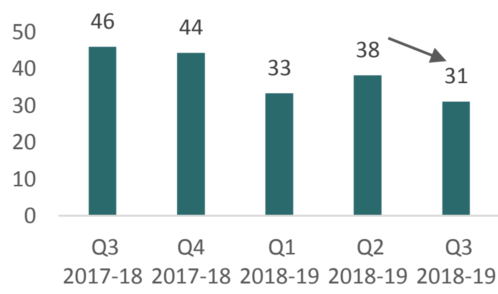


Exports

Outlook on exports, however, worsened…

The outlook of respondents with regard to exports witnessed moderation. In the latest survey, 31% respondents said that they foresee higher to much higher outbound shipments over next two quarters. The corresponding number in the previous round was 38%.

(Proportion of respondents)



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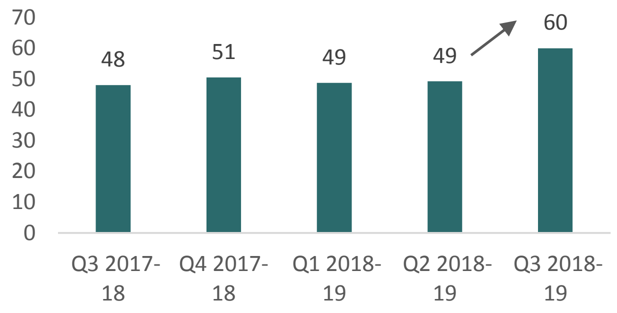
Constraining Factors

Proportion of respondents citing weak demand as a constraining factor surged

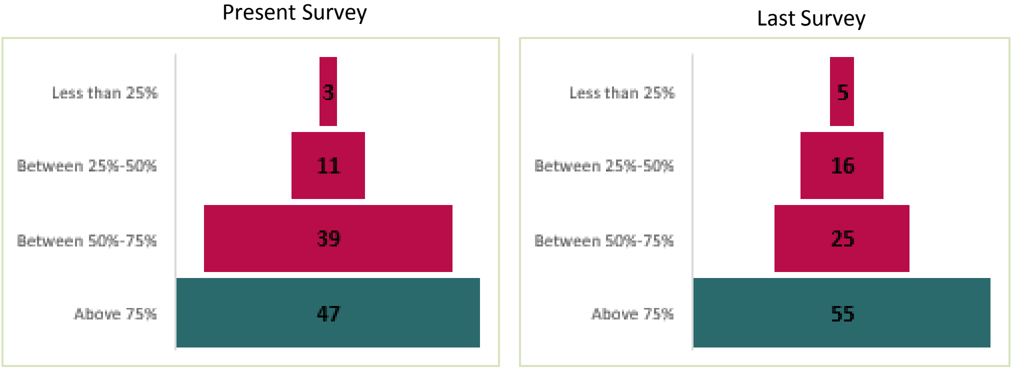
According to the results of our latest survey, a majority of participating companies reported the domestic demand situation to have worsened. Around 60% participating companies cited weak demand as a bothersome factor for their business as compared to 49% stating likewise in the previous survey round.

(Proportion of respondents)



47% respondents indicated a capacity utilization rate of over 75% in the present round compared to 55% reporting the same in the previous round.

Capacity Utilization *(Proportion of respondents)*



....60% respondents cited weak demand as a constraining factor....

....47% respondents cited capacity utilization of more than 75%...

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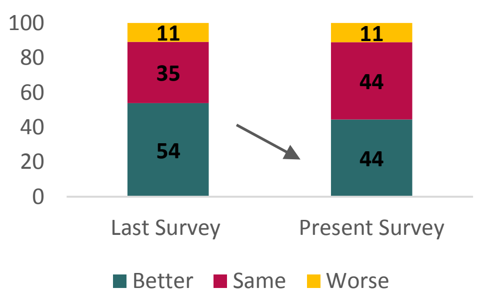
Constraining Factors

In the current survey, a decline was noticed in the proportion of respondents anticipating better order books over next six months. About 44% companies expected an improvement in their order book position in coming six months vis-à-vis 54% who stated likewise in the previous round.

Expected order book position over next two quarter



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor noted a marginal decline only- around 51% participants cited credit costs as a concern. In the previous round, 60% respondents had stated the same.

	Present Survey	Last Survey
Availability of credit	40	48
Cost of credit	51	60

Constraining Factors

Furthermore, the proportion of respondents citing availability of credit as a major concern also noted a decline. Around 40% of the respondents cited availability of credit as a bothersome factor. The corresponding number was 48% in the previous round.

Survey findings indicate that companies are paying an average interest rate of 13.3% on term loans and an average interest rate of 12.6% on working capital loans.

Average Interest on Term Loans: 13.3%
Average Interest on Working Capital Loans: 12.6%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reported to be a constraining factor by 50% of the respondents. The corresponding figure in the previous survey round was 76%, and 66% a year back. Lower commodity prices have eased the cost burden of members of India Inc. to some extent

(Proportion of respondents)

	Present Survey	Last Survey
% of respondents citing raw material costs to be a concern	50	76

Raw material costs pose a major challenge for about 50% of the companies…

Assessment of the liquidity situation in financial system and steps to improve the same

The IL&FS crisis in mid 2018-19 had a temporary but significant short-term impact on the credit flow to NBFCs and thereby on liquidity in the financial system. Given this backdrop, companies were asked to share their assessment on the liquidity situation in the financial system and recommend ways to address the deficit, if any.

While some respondents found liquidity conditions adequate, particularly after the consistent open market operations (OMO) undertaken by RBI, however, a majority of the participants asserted that despite OMOs, liquidity in the system remained tight.

Most of the dissenting participants felt that banks remain wary to lend to companies amidst the ongoing process of resolution of stressed balance sheets. This has impacted all sectors, even those that are listed under priority lending.

Companies felt that the resolution of stressed assets is progressing well and is opening up additional lending space for banks which must be effectively utilized to help businesses and the economy to grow.

The participating companies called for additional measures to ensure that adequate liquidity is available in the financial system and to businesses in the long term. The companies suggested that RBI, in addition to conducting OMOs, must consider utilizing other tools to address the liquidity deficit in the system - such as reducing the Statutory Liquidity Ratio and Cash Reserve Ratio, incentivizing higher foreign direct investments and portfolio investments.

Further, it was felt that continued support is required for the NBFCs as they are a major source of funding for small & medium enterprises and the housing sector.

Surveyed participants felt that banks must extend working capital loans against lower collateral requirements. Further, they recommended access to finance on the basis of a company's order book which is much more suitable for non-established/ growing companies.

In addition, it was pointed out that the interest rates on loans must be reduced as the current high cost of lending is unviable for most companies. Participating companies recommended differentiating interest rates on the basis of the credit history of the borrower.

Moreover, the participating companies indicated that the government should avoid building large cash surplus positions with RBI as that strains liquidity in the banking system.

A lot of companies indicated that their working capital is still stuck because of delays in GST refunds and is adding to the liquidity stress. The government should ensure that GST refunds are streamlined and the formalities are made less cumbersome. The government must play the role of a facilitator and boost confidence in the market.

Views on ways to enhance job creation

Creation of jobs is a key imperative for India given the country's large and expanding workforce. Participating companies, therefore, were asked to share their views on ways to ensure generation of adequate quality jobs to absorb new entrants to the workforce annually.

Respondents believed that job creation is correlated to the pace of economic activity. Job creation would require that most sectors in the economy, especially the core sectors, grow on a consistent basis. It was, therefore, suggested that the government prepares sector wise plans and identify growth enablers in each of these sectors. Greater focus must be laid upon labor intensive industries such as textiles and apparels, leather, gems & jewellery, tourism and construction.

Moreover, respondents felt a dire need for a comprehensive 'Industry and Trade Policy' for the country, without which the core objectives of Make In India will be difficult to achieve. It was highlighted that without focusing on manufacturing, India will be unable to generate sufficient jobs.

In this context, respondents also called for export incentives to boost manufacturing exports from the country. It was told that dumping of cheap goods from competitors such as China is becoming binding on domestic producers as it impacts their investment plans. This was a major concern for the participating companies especially in the current scenario of rising trade tensions between US and China. It was, therefore, deemed essential that India keeps the trade imbalance with China under check and take necessary measures to improve on it. Alongside, India should focus on the opportunities being created and should explore newer export markets.

Enhancing exports also depends on cost competitiveness which comes on back of high productivity and improved quality standards. The participants felt that a skilled worker has a big role in enhancing competitiveness. A majority of companies highlighted that the issue of skill mismatch remains a challenge and must be addressed on a mission mode.

Further, the surveyed companies emphasized on the need for putting in place a seamless infrastructure and logistics eco-system. This would not only enable India to enhance its competitiveness but will also add to the jobs basket as demand for construction as well as services sector increases.

Citing other measures, participating companies opined that timely resolution/ restructuring of corporate balance sheets will improve capacity utilization and will also lead to greater number of jobs.

Additionally, more measures must be taken to enhance ease of doing business in the country. Labor laws must be upgraded and be made more industry friendly.

Sectoral outlook and top three policy priorities of the government in 2019

A majority of the participating companies seemed sanguine about the outlook of their respective sectors in 2019.

Participants believed that India is in a good spot and the growth momentum is likely to gain strength going ahead. Despite projections of a moderating global growth in 2019, major multilateral institutions forecast India to hold steady on its growth path and remain among the fastest growing countries on back of strong domestic macroeconomic fundamentals. NPAs, though still high, are normalizing and are likely to decline as the economy grows.

However, the participants mentioned that possibility of energy costs escalating once again and frictional losses due to various compliance requirements remain bothering factors. Also, they did express some concern over the impending uncertainty on account of forthcoming elections.

Apart from sharing their business outlook, participating companies were also asked to share what according to them will be the top policy priorities for government in 2019.

A majority of surveyed companies cited provision of greater export incentives, continued focus on ease of doing business, revisiting of labor laws and structural reforms in the rural and farming economy as the main action areas on the policy front. It was also highlighted that certainty and stability with regard to policies is of utmost importance.

Participating companies also felt that pending infrastructure projects must be quickly reinitiated with supporting reforms in the infrastructure space in the year 2019. Also, focus must be laid to strengthen the education and health sectors of the economy.

Additionally, the Make In India policy must be given more teeth to support domestic manufacturing and private investments on a large scale. In this context, respondents called for an early announcement and of the long awaited Industrial Policy.

The wish list on policy action front also included simplification and streamlining of GST, quick resolution of existing tax litigations and ensuring a stable exchange rate regime.

Many participants also indicated the necessity to concentrate on defence production and R&D of the country. For this, they suggested greater private sector participation in building defence equipment must be considered.

Finally, participating companies believed that preserving the environment must be given due emphasis and steps must be taken to ensure clean and green manufacturing in the country.

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Survey Profile

The survey drew responses from about 185 companies with a turnover ranging from Rs 6 crore to Rs 4.3 lakh crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January 2019 to June 2019.

Broad Sectoral Coverage			
Chemicals	Textile/Apparel	Plastics	Metals
Agricultural Equipment	Financial Services	Electronics	Textiles
Energy	Engineering Goods	Services	FMCG
Automotive	Fertilizer	Industrial Machinery	Footwear
	Steel & Steel Products		

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