



**Business
Confidence
Survey**

April 2017



HIGHLIGHTS

Overall Business Confidence Index at eight quarter high

Latest survey results indicate a turnaround in sentiment of the respondents towards greater confidence. The Overall Business Confidence Index moved up by almost 10 points in the present round and stood at 68.3 - which is the highest in eight quarters.

Index	Present Survey	Last Survey
Current Conditions	62.5	43.3
Expectations	71.3	65.6
OBC	68.3	58.2

Results pertaining to the current situation as well as expectations for the next six months report a distinct improvement.

Respondents cite improvement 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	25	19	35
Present Survey	54	50	60

	Expectations over next six months		
	Economy	Industry	Firm
Last Survey	64	60	75
Present Survey	79	73	79

The latest survey reports a marked improvement in the assessment of respondents with regard to current conditions compared to last six months at all three levels - economy, industry and firm.

The proportion of respondents citing current economic conditions as 'moderately to substantially better' relative to previous two quarters increased to 54% in the present round. In the last survey only about a quarter of the participants had stated likewise.

The remonetization process is almost complete and is backing the optimism among members of India Inc. Also, the Union Budget announced on February 1, 2017 had a positive undertone; clearly focusing on strengthening the economic fundamentals of the country.

The survey results point towards greater buoyancy in the near term expectations of the respondents as well. About 79% 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. At the industry and firm level, 73% and 79% of the participating companies respectively reported a likely improvement in performance over near term.

The survey results highlight considerable improvement in the confidence level of corporate India which is reassuring. This is despite an uncertain global environment and new risks remaining on the anvil. Amidst this situation, it remains important to keep up the momentum on domestic reforms and take these forward by focusing on their timely implementation. This will help sustain the improved confidence level.

Outlook of respondents with regard to operational parameters

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



Investment intentions continue to remain tepid and this remains one of the biggest economic concern at the moment. Even though the government has been

pushing public investments; a turnaround in the domestic private capex cycle is needed to support growth and jobs.

In the present round, a marginal decline was noted in the proportion of respondents anticipating an increase in investments over the near term. About 40% of the participating companies indicated that they foresee higher investments over the next two quarters. The corresponding figure in the previous round was 44%.

Nonetheless, some improvement was reported in the capacity utilization rate of companies. In the present round, 45% of the participating companies indicated that they are operating at over 75% capacity. The corresponding figure in the previous round was 40%.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	55	60
Above 75%	45	40

This pickup is further corroborated in the improved outlook of the companies with regard to sales and profits.

About 65% of the companies participating in the present survey mentioned that they foresee an increase in sales over the next two quarters. The corresponding figure in the previous round was 46%. The demand situation is gradually improving as the process of remonetization is almost complete.

Further, about 42% participants anticipated an increase in profits over near term, vis-à-vis 26% stating likewise in the previous round.

An improvement was noted in outlook of respondents with regard to employment generation with 27% respondents looking forward to hire new employees. In the previous round 18% companies had stated the same.

Surprisingly with regard to the export prospects, participants seemed somewhat apprehensive. About

31% respondents said that they foresee higher exports over the near term, which was 23 percentage points lower than the proportion of respondents stating likewise in the previous round. This is despite the recent pickup witnessed in export activity. However in light of the emerging global challenges, it seems there is some uncertainty about sustaining this trend going ahead.

Pricing power will take another 9 months to 12 months to return

The respondents were also asked that based on their assessment of the demand situation, by when they see the pricing power returning to corporates.

The participants felt that it could still take some time for the companies to see a return in their pricing power.

A majority of the respondents felt that it will take about 9 months to 12 months for pricing power to return. The capacity utilization is still sub optimal. Even though demand situation is gradually improving but it will take a couple of quarters before the full momentum builds in. This will also be contingent on the how the global economy shapes up.

Key constraining factor for businesses

Rising raw material costs posing to be a challenge for companies

(Proportion of respondents)

	Present Survey	Last Survey
Respondents citing raw material costs to be a concern	61	65

Global commodity prices have been firming up for some time now. Crude oil prices (Europe Brent) have edged by over 30% over the past one year and metal prices (indexmundi metal price index) by over 25%.

In the present survey, rising raw material prices were reflected to be a constraining factor by 61% of the respondents. While 48% companies had stated the same a year back, the corresponding figure in the previous round was 65%.

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

Companies seem more upbeat about domestic demand prospects

(Proportion of respondents)



Demand situation, which was showing some signs of improvement, was reported to be a major constraining factor by companies participating in the previous survey round. The consumption activity was temporarily hit by the sudden demonetization move of the Government in the third quarter of the fiscal year 2016-17. However, the situation seems to be getting back on track.

About 59% of the companies participating in the present survey reported weak demand to be a worrying factor for businesses; in the last round 79% participants had stated the same. Demand is expected to gain traction going ahead and this is in sync with the anticipated pickup in sales and improved capacity utilization rates.

The respondents indicate that they do foresee a pickup in demand over the period April, 2017 to September, 2017.

64% of the participating companies foresee an increase in domestic demand over near term (vis-à-vis 58% stating like in the last round); while 53% of the respondents expected external demand to increase over the next six months (vis-à-vis 69% stating like in the last round). The companies, thus, seem more upbeat about the domestic demand prospects.

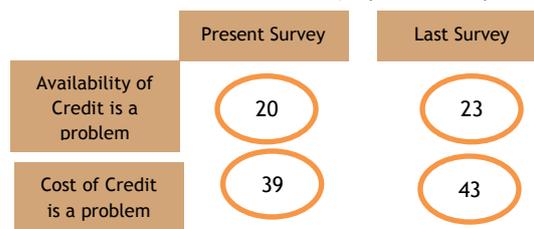
Credit Situation

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 39% participants reported cost of credit to be a bothering factor. The corresponding number in the previous round was 43%.

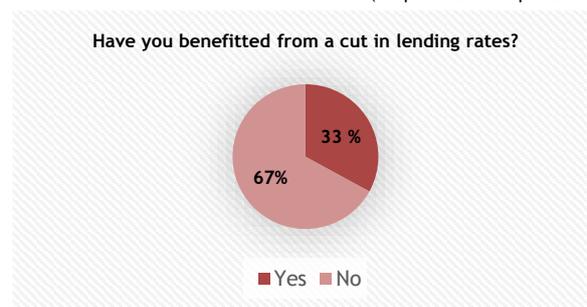
Both the Government and the Central Bank have taken a slew of measures over the past couple of years to moderate the lending rates. The Reserve Bank of India has revised down the repo rate by 175 bps between January 2015 and October 2016; the interest rates on small saving scheme were reset and marginal cost of funds based lending rate was made applicable last year. Earlier this year, some major banks did revise down their lending rates.

(Proportion of respondents)



In light of these developments, the respondents were asked to indicate if they have been able to benefit from the recent downward revision in lending rates by banks.

(Proportion of respondents)



Surprisingly, about 67% of the participants responded in negative. Further, out of the remaining who said they have been able to benefit from the decline in lending rates, the extent of benefit varied between 10 basis points to 200 basis points.

The survey results indicate that on an average the companies are paying an interest rate of about 11.0% on working capital loans and 11.3% on term loans.

Companies looking at greater use of digital modes

The Government has been focusing on Digitization in a big way. The Digital India initiative was launched in 2015 with the objective of assuring improved governance and access to digital infrastructure for all citizens. 69% of the companies participating in the survey said they are introducing changes in their organization towards greater use of digital modes/digitalization for transactions.

Survey Profile

The survey drew responses from about 185 companies with a turnover ranging from Rs 11 crore to Rs 11,700 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period April 2017 to September 2017.

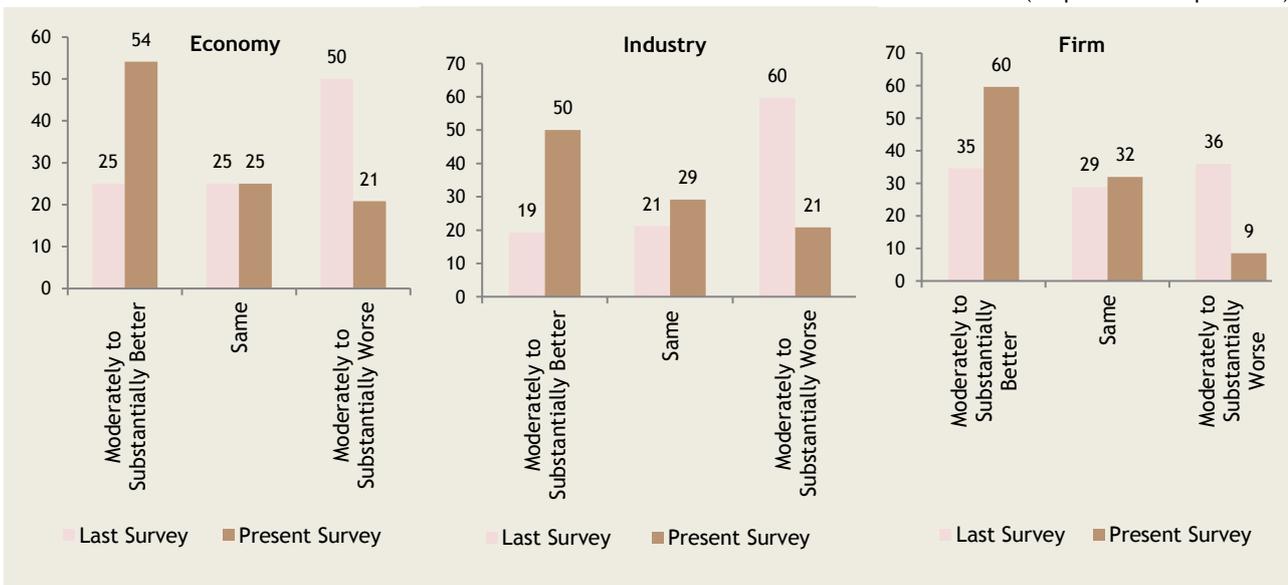
Broad Sectoral Coverage

Industrial Engineering	Infrastructure Development	Textile	Mineral Resources
Industrial Consumables	Agricultural Equipment	IT & Telecom	Food Processing
Financial Services	Leather & Leather Products	Rubber & Rubber Products	FMCG
Oil & Gas	Paper & Paper Products	Real Estate	Electronic Products
Steel & Steel Products	Defence & Aerospace	Chemicals	Hospitality

Detailed Survey Findings

Current Conditions vis-à-vis last six months

(Proportion of respondents)



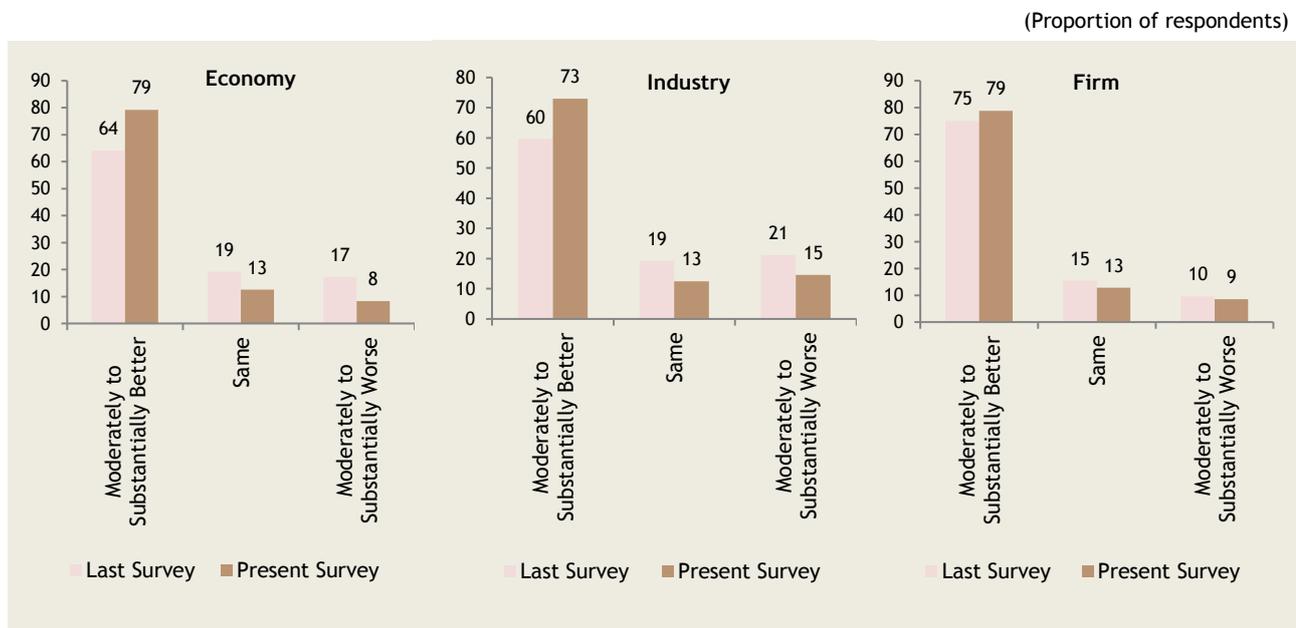
The latest survey conducted during the months of January and February 2017 reported a marked improvement in the assessment of respondents with regard to current conditions compared to last six months. This is an encouraging pick up from a muted sentiment observed in the previous round and

indicates an improvement in the current conditions vis-à-vis last six months at all three levels- economy, industry and firm.

The proportion of respondents citing the current economic conditions as ‘moderately to substantially better’ relative to the previous two quarters increased to 54% in the present round. In the last survey only about a quarter of the participants had stated likewise. Similarly about 50% of the respondents at industry level and 60% at firm level reported improved current conditions vis-à-vis last six months. Correspondingly, a substantial decline was noted in the percentage of respondents citing conditions to have worsened vis-à-vis last six months at all the three levels.

Remonetization process is nearly complete and is backing the optimism among members of India Inc. Also, the Union Budget announced on February 1, 2017 had a positive undertone; clearly focusing on strengthening the economic fundamentals of the country.

Expected performance over next six months



Further, latest survey results point towards greater buoyancy in near term expectations of the respondents. The participants indicated that they foresee an improvement in the performance / conditions at all three levels - economy, industry and firm during the period April-September 2017.

About 79% of the companies participating in the survey indicated that they expect the economy to do ‘moderately to substantially better’ over the coming two quarters. The corresponding number was 64% in

the previous round. At industry and firm level, 73% and 79% of the participating companies respectively reported that they expect an improved performance over near term.

The survey results are reassuring. This is despite an uncertain global environment and new risks remaining on the anvil. Amidst this situation, it remains important to keep up the momentum on domestic reforms and take reforms forward by focusing on their timely implementation. This will help sustain the improved confidence level among businesses.

Overall Business Confidence Index - at eight quarter high

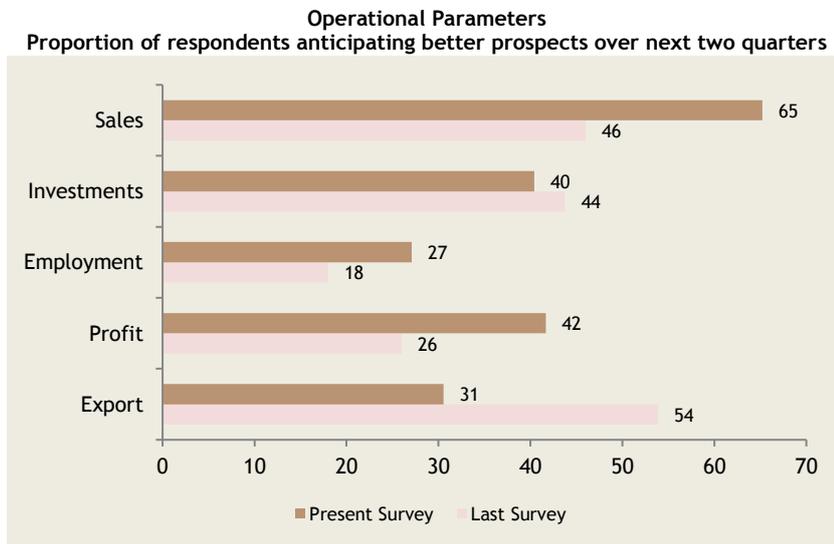


Latest survey results indicate a turnaround in sentiment of the respondents towards greater confidence. The results pertaining to current situation as well as outlook for the coming six months report a distinct improvement.

Thus, the Overall Business Confidence Index moved up by almost 10 points in the present round and stood at 68.3. In the last survey, the Overall Business Confidence Index value was 58.2 - which was 9 notches lower than the corresponding index value in the previous round of the survey.

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 sales, employment and profits; outlook on parameters such as exports indicates weakening.

Investment intentions continue to be tepid and weak investment activity remains one of the key economic concerns at the moment. Even though the government has been pushing public investments; a turnaround in the domestic private capex cycle is a must for sustaining growth and jobs in the economy.

In the present round, a marginal decline was noted in the proportion of respondents anticipating an increase in investments over the near term. About 40% of the participating companies indicated that they foresee higher investments over the next two quarters. The corresponding figure in the previous round was 44%.

Further, over half (55%) of the participants anticipated no change in their investment plans. This is about 26 percentage points higher than the proportion of participants stating likewise in the previous round.

Nonetheless, some improvement was reported in the capacity utilization rate of companies. In the present round, 45% of the participating companies indicated that they are operating at over 75% capacity. The corresponding figure in the previous round was 40%.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	55	60
Above 75%	45	40

It is encouraging to see the improvement in the capacity utilization rates as we expect this to make space for fresh investments going ahead. This pickup is further corroborated in the improved outlook of the companies with regard to sales and profits.

About 65% 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 46%. The demand situation is gradually improving as the process of remonetization is now almost complete.

Further, about 42% participants anticipated an increase in profits over near term, vis-à-vis 26% stating likewise in the previous round.

The respondents were also asked that based on their assessment of the demand situation, by when they see the pricing power returning to corporates. The participants felt that it could still take some time for the companies to see a return in their pricing power.

A majority of the respondents felt that it will take about 9 months to 12 months for pricing power to return. The capacity utilization is still sub optimal. Even though demand situation is gradually improving but it will take a couple of quarters before the full momentum builds in. This will also be contingent on the how the global economy shapes up.

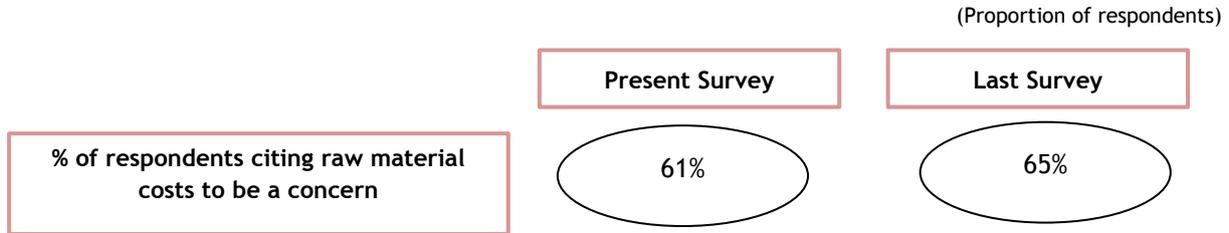
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Surprisingly with regard to the export prospects, participants seemed somewhat apprehensive. About 31% respondents said that they foresee higher exports over the near term, which was 23 percentage points

lower than the proportion of respondents stating likewise in the previous round. This is despite the recent pickup witnessed in export activity. However in light of the emerging global challenges, it seems there is some uncertainty about sustaining this trend going ahead.

Key constraining factors for businesses

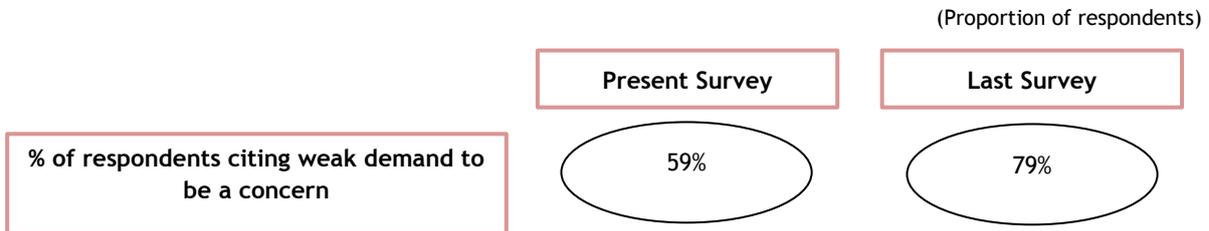
Rising raw material costs posing to be a challenge for companies



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In the present survey, rising raw material prices were reflected to be a constraining factor by 61% of the respondents. While 48% companies had stated the same a year back, the corresponding figure in the previous survey round was 65%.

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



Demand situation which was showing some signs of improving, was reported to be a major constraining factor by companies participating in the previous survey round. The consumption activity was temporarily hit by the sudden demonetization move of the Government in the third quarter of the fiscal year 2016-17. However, once again the situation seems to be getting back on track.

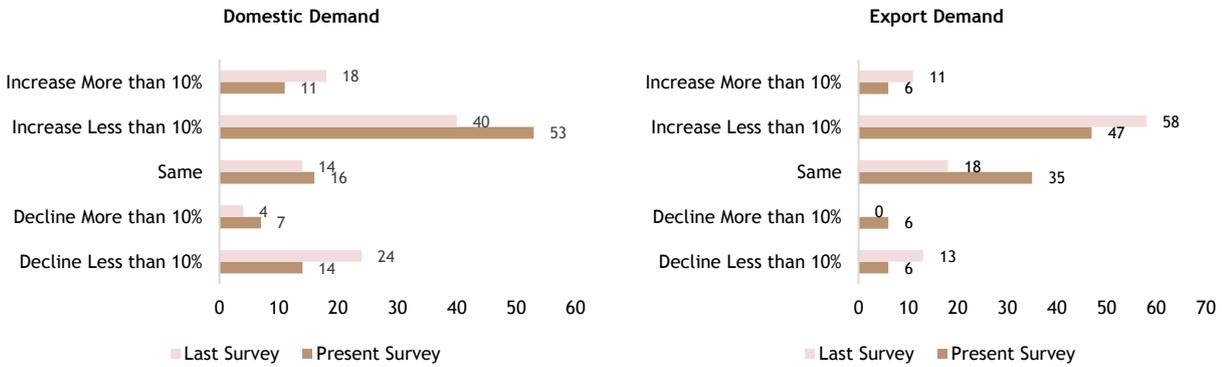
About 59% of the companies participating in the present survey reported weak demand to be a worrying factor for businesses; in the last round 79% participants had stated the same. Demand is expected to gain traction going ahead and this is in sync with the anticipated pickup in sales and improved capacity utilization rates.

The respondents indicate that they do foresee a pickup in demand (both domestic and external) over the period April, 2017 to September, 2017.

64% of the participating companies foresee an increase in domestic demand over near term (vis-à-vis 58% stating likewise in the last round); while 53% of the respondents expected external demand to increase over the next six months (vis-à-vis 69% stating like in the last round). The companies, thus, seem more upbeat about the domestic demand prospects.

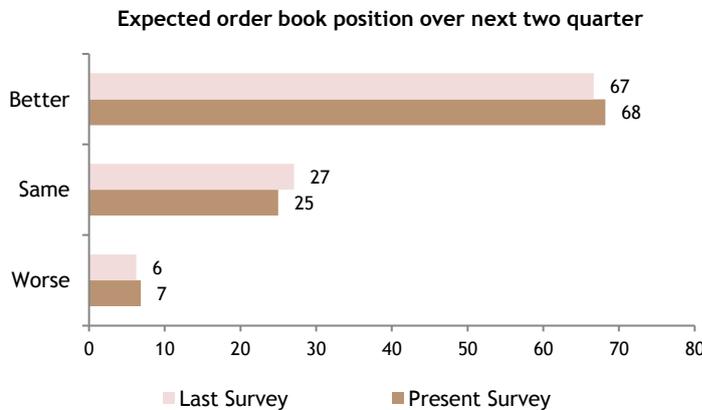
Demand outlook over coming six months (April 2017 - September 2017)

(Proportion of respondents)



However, not much change is noted in the expectation of the respondents with regard to the order book position. About 68% of the 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 20% of the respondents, while 39% respondents reported cost of credit a bothering factor

(Proportion of respondents)

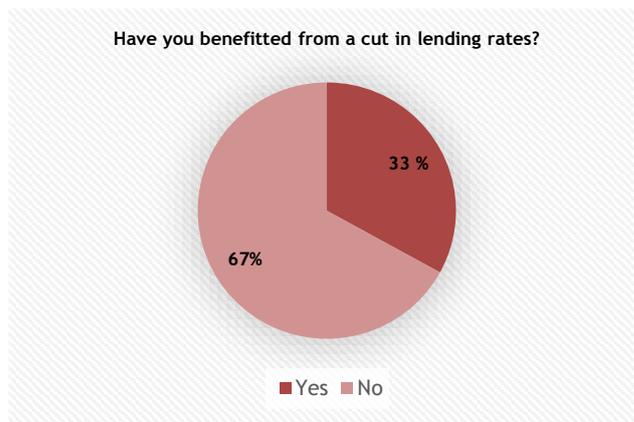
Credit	Present Survey	Last Survey
Availability	20	23
Cost	39	43

About 39% of the respondents stated cost of credit to be a worrisome factor in the present round, vis-à-vis 43% stating likewise in the last survey.

Both the Government and the Central Bank have taken a slew of measures over the past couple of years to check the lending rates. The Reserve Bank of India has revised down the repo rate by 175 bps between January 2015 and October 2016; the interest rates on small saving scheme were reset and marginal cost of funds based lending rate was made applicable last year. Earlier this year, some major banks did revise down their lending rates.

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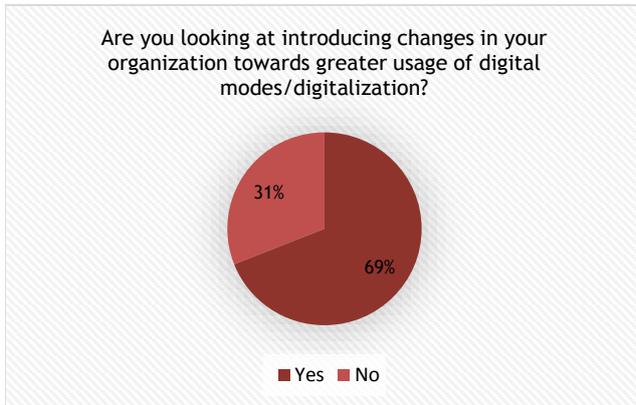
(Proportion of respondents)



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Companies looking at greater use of digital modes/digitalization

The Government has been focusing on Digitization in a big way. The Digital India initiative was launched in 2015 with the objective of assuring improved governance and access to digital infrastructure for all citizens.



Areas where companies are planning to invest in digital technologies...

- Employee Reimbursements
- Enterprise Resource Planning usage
- Deployment of PoS machines
- Marketing
- Supply Chain Management

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