Business Confidence Survey

January 2020
Overall Confidence Index improves after seven quarters

Weak demand continues to be a major impediment for the industry

• The latest round of FICCI’s Business Confidence Survey revealed an improvement in the optimism level of members of India Inc after seven quarters. The Overall Business Confidence Index improved to 59.0 in the current round vis-à-vis an index value of 55.0 reported in the last survey. Improvement in both, current conditions as well expectations index led to a better overall index value during the quarter.

• Majority of respondents continued to cite weak demand situation as a worrying factor. In the current survey, 76% participants reported weak demand conditions as a bothering factor as compared to 73% stating the same in the previous round. Subdued demand is also seen manifesting in lower capacity utilization amongst members of India Inc. Only 28% of the participating companies cited a capacity utilization rate of more than 75% in the current survey.

• The survey results allude to a moderate outlook for investments. Around 37% participants said that they foresee higher to much higher investments over coming six months vis-à-vis 38% stating likewise in the last survey.

• However, companies seemed a bit more optimistic about their forecasts for sales and exports over next six months. In the current survey round, 43% of the surveyed companies said that they foresee higher to much higher sales over next two quarters. The corresponding number in the previous round was 37%. Likewise, 34% respondents cited that they expect higher outbound shipments over next two quarters. The corresponding number in the previous round was 23%.

• Favourable news on US-China trade negotiations and clearance to the BREXIT deal by EU Parliament are expected to have a positive bearing on economic sentiments. However, heightened geo-political tensions continue to pose as a risk factor to economic as well as export outlook.

• The outlook on employment improved marginally in the present survey. About 24% participating companies said that they foresee a rise in hiring activity over coming six months vis-à-vis 23% companies stating likewise in the previous round.

• About 40% of the participating companies stated higher raw material costs as a bothering factor in the present survey round. This was lower than 47% participants who stated likewise in the previous survey round.
Summary

The respondents were also asked to share their opinion on certain contemporary issues such as their expectations from the Union Budget 2020-21, the business risks they foresee in 2020 and the strategies that they plan to adopt to overcome these risks.

Expectations from Union Budget 2020-21…

• A majority of participating companies called for urgent measures to boost consumption in the country.
• Weak demand was cited as a major impediment to businesses in the current survey round.
• Participating companies asked for an increase in government spending amid current economic scenario especially when private sector investments have taken a back seat.
• Participants also recommended greater emphasis on raising money through large scale disinvestment of public sector undertakings to fund the infrastructure spend.
• Respondents highlighted the need for undertaking taxation reforms to remove anomalies in the tax regime. The respondents were hopeful of a reduction in income tax on proprietorship/ partnership/ LLP firms - as the segment has not seen any rationalization in tax rates.
• With regard to indirect taxes, companies felt that GST rates should be revisited and be further rationalized.
• Availability of affordable credit for businesses was another major ask from members of India Inc.
• Furthermore, companies reiterated the need for continuity in improving the business environment of the country as they felt that significant red tape still exists. It was felt more efforts must be made to further reduce the compliance burden and eliminate human interface in granting government approvals.
• To support exports, respondents recommended that the proposed RoDTEP scheme should match the benefits that were prevalent under the MEIS scheme.
• Additionally, the government must enter into free trade agreements with Europe, USA and other countries of interest where India holds good potential.
• A need for urgent measures to enhance competitiveness of the Indian industry across sectors was also strongly felt. This would require structural reforms in the factor markets on an urgent basis. Creation of land banks, comprehensive labor market reforms that are in sync with the business needs today, and easy availability of credit were some of the recommendations made by the participants.
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Summary

GDP growth forecast and key business risks for 2020...

• About 48.7% of the participating companies expected GDP growth to be below 5% in 2019-20, while 38.5% of the participants expected GDP to grow anywhere between 5% to 5.5%. Only 12.8% respondents anticipated a GDP growth of over 5.5% in the current fiscal year.
• Participating companies cited weak demand as the topmost risk for their business.
• Rupee depreciation, rising household/ corporate debt and declining prospects for economic reforms were some other major risks cited by the survey respondents.
• In addition, India Inc is facing huge risks from delays in necessary structural reforms in the factor markets and lack of adequate credit availability to MSMEs.
• Stagnancy in exports, delay in disbursement of subsides / incentives for exports, high transaction costs involved in trade and excessive dumping of goods, were some of the concerns cited on the external front.
• Finally, respondents felt that as cases under the IBC get resolved, bankers need to shun their fears and become more risk neutral in lending to businesses, especially SMEs.

Strategies to ensure growth in business....

• A majority of the participating companies are planning to reduce their costs of operations to ensure that their business grows in the year 2020.
• Around 62% participating companies said that they will try to access new markets within the country as it will help them expand their business outreach.
• About 60% said that they will be looking at enhancing their sales, while 58% felt that introducing new products during the year could improve their business growth.
• The respondents unanimously agreed that they will be focusing more on diversifying their products mix and enhancing overall customer experience.
• Moreover, only 19% of the respondents said that they will have the bandwidth to undertake fresh investments to boost their business prospects in 2020.
• Quite a few respondents also cited leveraging digital technology to take their business to the next level. Many of them cited utilizing e-commerce platforms to enhance their sales and business outreach, while some others said that they are in the process of developing new apps on a priority basis.
• The participants also seemed upbeat about investing in newer technologies that can add greater value and enhance their overall productivity. The participating companies showed interest in enhancing their R&D expenditure.
FICCI’s latest Business Confidence Survey showed an improvement in the proportion of respondents reporting better current conditions relative to last six months at all three levels - economy, industry and firm.

In the present survey, the proportion of participants citing current economic conditions as ‘moderately to substantially better’ relative to previous six months increased to 27% vis-à-vis 20% respondents stating likewise in the previous round. The sentiment witnessed an uptick for the first time in eight quarters.

Likewise, an increase was noted in the proportion of respondents citing better current conditions at the industry level. About 33% respondents at industry level reported better current conditions vis-à-vis last six months as compared to 23% participants reporting the same in the previous round.

At firm level too, 35% respondents cited current conditions as ‘moderately to substantially better’ vis-à-vis last six months. This was higher than 30% participants reporting likewise in the previous survey.

Furthermore at all the three levels – economy, industry and firm, the proportion of companies reporting worsening in current conditions stood at a much lower level vis-à-vis the previous round.
Results of the latest survey reported an improvement in the optimism level of respondents about near term prospects when compared to the previous survey round.

At the economy level, the proportion of respondents foreseeing ‘moderately to substantially better’ performance over next six months improved to 52% in the current round compared to 50% participants reporting likewise in the previous survey.

Likewise, 55% of the surveyed companies reported that they expect an improved performance over coming six months at industry level. The corresponding number in the previous round was marginally lower at 52%.

Furthermore, the proportion of respondents hopeful about better prospects at the firm level also improved. About 60% of the participating companies expected a ‘moderately to substantially better’ performance over next two quarters in the current survey as compared to 53% stating the same in the previous round.

Furthermore, a downtick was noticed in the proportion of respondents citing worsening in near-term prospects at all three levels.
OBCI witnessed improvement after seven quarters and stood at 59.0 in the current survey vis-à-vis a value of 55.0 noted in the previous round...

Improvement noted in both Current Conditions as well as Near Term Conditions

Overall Business Confidence Index improved after seven quarters in the present round and stood at 59.0. The corresponding number in the previous round was 55.0. The assessment of respondents with regard to both current conditions as well as near term conditions improved in the latest survey round.

Global economic conditions have continued to remain subdued with IMF downwardly revising the global growth forecast for 2019, 2020 and 2021. However, there have been signs that manufacturing and global trade are bottoming out nurturing the hope for a rebound in global economic activity.

Broad based shift to accommodative monetary policy, clearance to the BREXIT deal by EU Parliament and favorable news on the US-China trade negotiations should bode well for the global economy and, in turn, for India’s economy as well.
Investment outlook remains moderate... Sales prospects improve...

Investments

The proportion of respondents citing ‘much higher to higher’ investments in the coming six months did not witness much change in the current survey vis-à-vis the previous round.

In the current survey, about 37% participating companies anticipated an increase in investments over coming six months. The corresponding number in the previous round was 38%.

Weak demand has kept corporates away from undertaking fresh investments as they anyway continue to deal with huge idle capacities. The Union Budget 2020-21 is round the corner and we look forward to measures to boost demand.

Sales

Latest survey results report an improvement in the outlook of respondents with respect to sales.

About 43% participating companies anticipated an increase in sales over next two quarters, vis-à-vis 37% respondents stating likewise in the previous round.

Furthermore, a decline was noticed in the proportion of respondents anticipating lower sales in the next six months (from 27% in previous round to 17% currently).
Survey results indicate no change in the outlook on profits...

...but suggests marginal improvement in employment prospects.

Outlook on exports improved...

**Profits**

In the present round, outlook on profits of companies remained unchanged. The proportion of participants citing higher profits over next six months stood at 26% in the latest survey round – which was the same as last survey.

Nonetheless, improved sentiment around sales prospects may improve the outlook on profits of corporate India over next few rounds.

**Employment**

As per the latest survey results, outlook on employment generation improved marginally in the current survey round.

In the present round, 24% respondents said that they foresee hiring new employees over the next six months. The corresponding number in the previous quarter was 23%. Furthermore, a lower proportion of companies (28%) cited lower hiring prospects in the current round vis-à-vis 34% stating likewise in the previous round.

**Exports**

The outlook of respondents with regard to exports noted an improvement. In the latest survey, 34% respondents said that they foresee higher to much higher outbound shipments over next two quarters. The corresponding number in the previous round was much lower at 23%. Further, only about 28% respondents expected lower exports in the coming six months as compared to 43% stating likewise in the previous round.
According to the results of our latest survey, a majority of participating companies continued to report subdued domestic demand situation. Around 76% of participating companies cited weak demand as a bothersome factor for their business in the present round. The corresponding number in the previous round was 73%.

Despite some improvement from previous round’s results, capacity utilization rate remains poor. Only 28% respondents, indicated a capacity utilization rate of over 75% in the present round, vis-à-vis 25% stating likewise in the previous round.
Furthermore, no change was noted in the proportion of respondents anticipating better order books over next six months in the current survey. About 53% companies expected an improvement in their order book position in coming six months, which was the same as previous round.

![Expected order book position over next two quarters](chart)

*Credit Situation*

In the present survey, proportion of respondents citing cost of credit as a worrisome factor declined from the previous round- around 38% participants cited credit costs as a concern.
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Constraining Factors

Furthermore, the proportion of respondents citing availability of credit as a major concern also remained the same. Around 39% of the respondents cited availability of credit as a bothersome factor. The corresponding number was 40% in the previous round.

Survey findings indicate that companies are paying an average interest rate of 10.5% on term loans as well as on working capital loans.

Average Interest on Term Loans: 10.5%
Average Interest on Working Capital Loans: 10.5%

Raw Material Costs

In the present survey, rising raw material prices were reported to be a constraining factor by 40% of the respondents. The corresponding figure in the previous survey round was 47%, and 50% a year back.

(Proportion of respondents)

% of respondents citing raw material costs to be a concern

Present Survey: 40
Last Survey: 47

Raw material costs pose a major challenge for about 40% of the companies...
Expectations from Union Budget 2020-21

The government will present the Union Budget 2020-21 in a few days from now. Given the current state of affairs, respondents were asked to share their key expectations from the forthcoming budget. In addition, companies were also asked to suggest measures to promote economic growth which has been lagging for some time now.

Demand side...

A majority of the participating companies called for urgent measures to boost consumption demand in the country. Weak demand was cited as a major impediment to businesses by the respondents in the current survey round. About 76% respondents cited weak demand as a major limiting factor to undertake fresh investments. This was the highest proportion of respondents stating likewise in eleven quarters. In fact, Q3 2019-20 was the third consecutive quarter when more than 70% of the respondents reported demand as a constraining factor for businesses.

Investments...

Participating companies asked for an increase in government spending amid the current economic scenario especially when private sector investments have taken a back seat. Government expenditure would enable creation of infrastructure which will have a multiplier effect with benefits including employment generation, greater demand of basic raw materials, increased demand for commercial vehicles etc. Participants also suggested raising money from large scale disinvestment of public sector undertakings to fund the infrastructure spend.

Taxation...

A significant proportion of respondents highlighted the need for undertaking taxation reforms to remove anomalies in the regime. The respondents are hopeful of a reduction in income tax on proprietorship/ partnership/ LLP firms - as the segment has not seen any rationalization in tax rates. Since these firms form a large part of business units in India, it was felt that a reduction in tax had the maximum potential of generating consumption and investment demand.
On the indirect tax front, companies felt that GST rates should be revisited and be further rationalized. Participants also felt the need for clearing the backlog of GST input tax credit refunds on priority. Tax terrorism and harassment of honest taxpayers was another issue that needed urgent redressal. Participants said that the government must come up with a scheme to resolve past litigation on a priority basis.

**Finance and banking...**

Availability of affordable credit to businesses was one of the major asks of the participants. Companies, in particular, asked for reduced interest rates on working capital and project funding needs.

In addition, participating companies asserted that public sector bank consolidation and recapitalization be fast tracked to resolve the resultant credit issues. Once the process is completed, it was suggested that banks be encouraged to raise equity capital from the markets to reduce future reliance on government funds.

Additionally, participants called for abolition of dividend distribution tax and taxes on long term capital gains on equity.

**Governance...**

On this front, companies reiterated the need for continuity in improving the business environment of the country as significant red tape still exists. It was felt efforts must be made to further reduce the compliance burden and eliminate human interface in granting government approvals. It was suggested that full use of technology must be made to reduce wasteful expenditure of the government. The savings generated can then be diverted towards incurring quality expenditure.

Respondents also highlighted the need for quicker release of contract payments by the government to private players which currently get stuck for long periods.

**External Sector...**

Participating companies suggested a whole host of measures to boost outbound shipments from the country. The respondents called for a better export policy to govern the sector.
It was recommended that the proposed RoDTEP scheme should match the benefits that were prevalent under the MEIS scheme. Additionally, the government should look at free trade agreements with Europe, USA and other countries of interest where India holds good potential.

A need for urgent measures to enhance competitiveness of the Indian industry was also strongly felt across sectors. While the government can work towards ensuring better infrastructure facilities that will ultimately lower the cost of doing business, the corporates can work towards achieving better productivity levels. This, however, would require structural reforms in the factor markets on an urgent basis. Creation of land banks, comprehensive labor market reforms that are in sync with the business needs today, and easy availability of credit were some of the recommendations made by the participants.

Respondents also pointed out that the domestic players must be protected from dumping of low-quality products which is leading to closure of small domestic firms. A need was also felt for revising the current duty structure. Import duty on major raw materials must be reduced.

**Micro Small & Medium Enterprises (MSMEs)…**

The main concern facing MSMEs today is availing affordable credit. Participating companies suggested that MSMEs must be provided credit without any collateral security. They were of the view that EXIM bank should be made to offer a line of credit to MSMEs especially for exports to countries in African and ASEAN regions. Furthermore, a temporary credit limit of 25% of the current limit must be provided to MSME borrowers for a period of one year. Additionally, it was recommended that the government comes out with a scheme to help MSMEs by providing subsidies and by offering finance at low rates of interest.

Finally, participating companies were unanimous in stating that an environment of policy certainty was a pre-requisite for attracting investors.
GDP growth forecast 2019-20 and key business risks this year

GDP growth for India reported further moderation in Q2 2019-20. Given the current scenario, participants were asked to share their estimate for India’s GDP growth for the year 2019-20 and their prognosis of downside risks that could impact their business this year.

About 48.7% of the participating companies expected GDP growth to be below 5% in 2019-20, while 38.5% of the participants expected GDP to grow anywhere between 5% to 5.5%. Only 12.8% respondents anticipated a GDP growth of over 5.5% in the current fiscal year.
Participating companies cited weak demand as the topmost risk for their business.

Rupee depreciation, rising household or corporate debt and declining prospects for economic reforms were some other major risks cited by the survey respondents.

Members of India Inc said they are facing huge risks arising from delays in necessary structural reforms in factor markets and lack of adequate credit availability to MSMEs.

Respondents also cited stagnancy in exports, delay in disbursement of subsides/incentives for exports, high transaction costs involved in trade and excessive dumping of goods (especially from China) as additional concerns.

The participating companies also highlighted the need for building a strong regime to protect intellectual property rights without which the country will risk losing on properly channelizing innovation and R&D. It was suggested as necessary for the government to ensure quick and time bound disposal of trademarks, copy writes and patent applications.

In addition, it was felt that greater efforts are required to further improve the business conditions. An environment that requires multiple permissions for businesses to operate and is still subject to inspector raj will not thrive and would need further correction. The government must focus on simplifying and expediting the entire process chain of approvals and compliances.

Finally, respondents pointed out that as cases under IBC get resolved, bankers need to shun their fears and become more risk neutral in lending to businesses, especially SMEs. Higher interest rates, multiple permissions, corruption, high infrastructure/logistics cost etc. together raise the cost of doing business, thereby hampering competitiveness. This is a serious concern in today’s globalized world where Indian industry has no option but to compete with foreign players.
On the back of the current business and economic scenario, participating companies were asked to share the strategies they were contemplating to ensure that their businesses grow in 2020.

A majority of the participating companies indicated that they are planning to reduce their costs of operations to ensure their business grows in 2020. About 73% of the participants felt that achieving operational excellence will help their business progress.

Around 62% of the participating companies said that they will try to access new markets within the country as this will help them expand their outreach. About 60% said that they will be looking at enhancing their sales, while 58% felt that introducing new products during the year could improve their business growth.

The respondents unanimously agreed that they will be focusing more on diversifying their products mix and enhancing overall customer experience. The participants said that they will spend more time to study consumer behavior in order to gauge the needs of the market and produce accordingly.

Moreover, only 19% of the respondents said that they will have the bandwidth to undertake fresh investments to boost their business prospects in 2020.
Quite a few respondents also cited leveraging digital technology to take their business to the next level. Many of them cited utilizing e-commerce platforms to enhance their sales and business outreach, while some others said that they are in the process of developing new apps on a priority basis.

Moreover, the participants also seemed upbeat about investing in newer technologies that can add greater value and enhance their overall productivity. The participating companies showed interest in enhancing their R&D expenditure.

In addition, they stressed for the need of increasing marketing efforts and visibility (including on social media) of their products/services both in the domestic and foreign markets.

Companies called for strict implementation of Make in India policy which would help the country save on foreign exchange outgo as well as generate manufacturing capabilities and employment opportunities for India’s large workforce.
The survey drew responses from about 190 companies with a turnover ranging from Rs 100 lakh to Rs 3.2 trillion and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January to June 2020.

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