

Overall Business Confidence Index increases by 7 points...however caution still underlines the mood of India Inc.

New Delhi, 17 June 2016: The results of FICCI's latest Business Confidence Survey indicate an improvement in the confidence levels of members of India Inc. The Overall Business Confidence Index was seven notches higher at 64.3 in the present round, vis-à-vis the value of 56.7 in the last round. This comes on the back of an improvement noted in both Current Conditions Index and Expectations Index. The proportion of respondents citing a 'moderately to substantially better' performance vis-à-vis last six months noted an increase at all the three levels – economy, industry and firm level. Also in the current round, participants seemed more positive about the near term prospects.

The Indian economy has moved into a zone of stability with key economic parameters strengthening. The reform process initiated by the Government has been noteworthy. The efforts made towards providing a conducive business environment have started yielding results and have improved the overall business sentiment.

However, what remains a concern is muted recovery in the industrial sector. The manufacturing growth numbers have not been very encouraging and the same is reflected in the financials of the companies as well. The latest survey results indicate not much improvement in the operational parameters of the companies. While the outlook with regard to parameters like sales, exports and employment did note an improvement; the respondents didn't seem optimistic about investment prospects and improvement in profit levels.

About 35% respondents said that they expect higher investments over the period April-September 2016, vis-à-vis 41% stating likewise in the previous round. The companies remain cautious about undertaking fresh investments and about 46% respondents said that they foresee no change in investment levels.

Also, given the slew of measures undertaken in about past two years to kick start investments, the respondents were asked to indicate if they have witnessed any improvement in investment activity in and around their area of operation – and a majority of them said that they are yet to see investment fructifying. Amidst those who indicated that investments are taking place reported activity mostly in infrastructure projects including roads and highways, railways, renewable energy and defence.

With regard to sales prospects, respondents anticipated an improvement in the performance. About 58% of the participating companies said that they foresee higher sales over the coming six months. In the previous survey, 48% companies had reported the same. The anticipated pickup in sales despite investment intentions remaining subdued indicates companies looking at rolling out unutilized capacity. About 54% of the participants in the current survey reported a capacity utilization of more than 75%, in the last round the corresponding figure was 30%.

Weak demand has been one of the key constraining factors for businesses. The demand conditions have not been very favorable with both global and domestic factors at play. The global economy is still not in recovery mode and growth remains scattered. Further, two consecutive years of drought has impacted the domestic demand adversely, especially in the rural segment. In fact, in the current round about 64% of the participants indicated demand situation to be worrisome. Nonetheless, forecast of a normal monsoon is expected to bring in some improvement in the domestic demand situation.

Further, 32% of respondents in the latest round reported that they would consider hiring more people in the coming six months; the corresponding number in the last round was 23%. However, still a majority 61% of the participants did not foresee any fresh hiring over the near term.

A marginal improvement was noted in the proportion of respondents expecting higher exports over the near term. However, the global economic situation remains fragile and any firm recovery remains elusive. Thus external situation will continue to pose a challenge over the near term and would take some more time to strengthen.

With respect to the credit, the situation seems to have improved with a decline noted in the proportion of respondents citing availability and cost of credit as constraining factors. The Reserve Bank of India has cut the repo rate by 150 bps since January 2015. The transmission through banks is expected to improve with the recent reduction in small savings interest rate as well as the introduction of the marginal cost of funds based lending rate (MCLR).

Weblink: <http://ficci.in/SEDocument/20367/Business-Confidence-Survey-June-2016.pdf>

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