



**Business
Confidence
Survey**

August 2017



HIGHLIGHTS

Overall Business Confidence Index falls by 2 points

Latest survey results indicate a marginal dip in the overall sentiment of the respondents. **The Overall Business Confidence Index fell by 2 points in the present round and stood at 66.1. In the previous survey, Overall Business Confidence Index value stood at an eight quarter high of 68.3.**

Index	Present Survey	Last Survey
Current Conditions	61.1	62.5
Expectations	68.7	71.3
OBC	66.1	68.3

Results pertaining to the current situation as well as expectations for the next six months noted a decline.

Respondents cite marginal deterioration in current conditions as well as expectations

Proportion of Respondents citing 'Moderately to Substantially Better' Performance

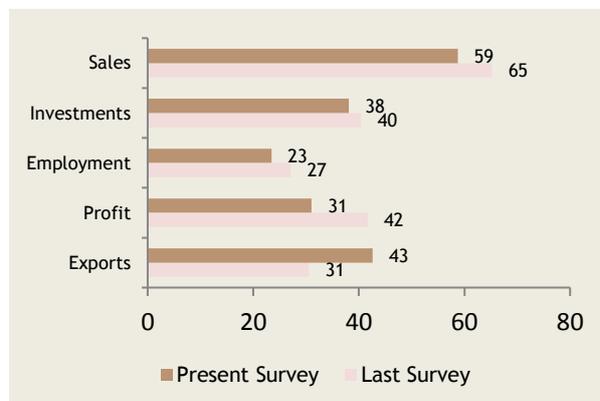
	Current conditions vis-à-vis last six months		
	Economy	Industry	Firm
Last Survey	54	50	60
Present Survey	59	45	55
	Expectations over next six months		
	Economy	Industry	Firm
Last Survey	79	73	79
Present Survey	63	61	72

The latest survey reports improvement in the assessment of respondents with regard to current conditions at the economy level compared to last six months. However, there was moderation noted in the respondents' assessment about the industry and firm level performance.

The survey results also point towards a decline in the near-term expectations of the respondents.

Outlook of respondents with regard to operational parameters

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



About 59% of the companies participating in the present survey cited an increase in sales over the next two quarters. This was 6 percentage points lower than 65% stating likewise in the previous round. The survey results report a strain in demand conditions.

Around 73% of the respondents cited weak demand to be a constraining factor in the current survey round, vis-à-vis 59% stating likewise in the previous round. **Nonetheless, rural demand is expected to pick up going ahead backed by a good monsoon and expectation of robust food production. Also, the upcoming festive season will provide some thrust to consumption activity.**

Outlook on investments remains weak in the current survey round. In the present round, a marginal decline was noted in the proportion of respondents anticipating an increase in investments over the near term. About 38% of the participating companies indicated that they foresee higher investments over the next two quarters. The corresponding figure in the previous round was 40%.

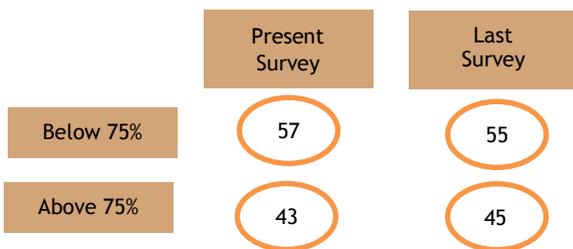
Further, about 17% of the participants anticipated lower investment during the period July to December 2017. This is around 13 percentage points higher than the proportion of participants stating likewise in the previous round.

Persistence of weakness in the private sector investments even amid a strong push to public investments is a matter of concern. A sustainable turnaround in the domestic private capex cycle is critical for growth and employment generation in the economy.

The companies continue to operate at sub-optimal capacities and the capacity utilization rates have not seen an improvement for some time now. In the present round, less than half (43%) of the participating companies indicated that they are operating at over 75% capacity. The corresponding figure in the previous round was 45%. Studies indicate that companies think of bringing on board fresh investments only when they hit a capacity utilization rate of about 80%.

Moreover, the Reserve Bank of India has maintained a neutral stance on the monetary policy. The industrial growth as reflected by the Index of Industrial Production remains volatile and a continued policy thrust from Government and Reserve Bank is critical. *The 25 bps cut in the repo rate announced by the Reserve Bank of India is a welcome move and will boost both industry and consumer sentiment. However, there is a need for further rate cut.*

Capacity Utilization Rates
(Proportion of respondents)



Furthermore, only 31% of the participating companies anticipated an increase in profits over near term, vis-à-vis 42% stating likewise in the previous round.

Outlook of respondents with regard to employment generation was also subdued with only 23% respondents looking forward to hire new employees. In the previous round 27% companies had stated the same.

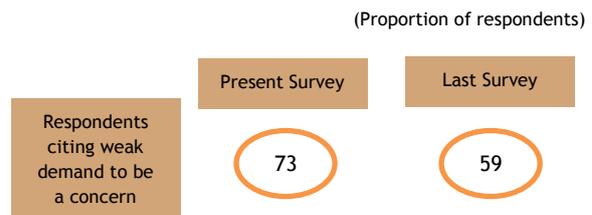
The only silver lining, in an otherwise clouded outlook, appeared around exports. **Participants**

seemed optimistic about export prospects over the next two quarters. About 43% respondents said that they foresee higher exports over the near-term vis-à-vis 31% respondents stating likewise in the previous round.

The actual export growth numbers for India have reported a pickup in the past few months. The global economic situation is gradually improving. India’s shipments to its major export destinations like United States, Euro Area have indicated an improvement. Nonetheless, downside risks remain imminent and it remains critical for India to revisit its export strategy. *The review of the foreign trade policy (to be announced in September 2017) especially in light of the introduction of Goods and Services Tax is being looked forward too.*

Key constraining factors for businesses

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



Demand situation which reported improvement in the previous round, was once again cited as a major constraining factor by companies participating in the present survey round. About 73% of the companies participating in the present survey reported weak demand to be a worrying factor for businesses; in the last round 59% participants had stated the same.

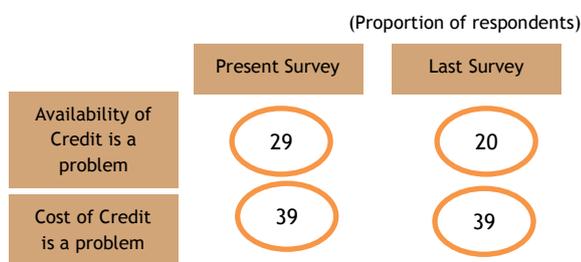
Further, the current order book position as well as the outlook has been impacted. Only 40% of the respondents felt that their current order book position has improved vis-à-vis last six months. The corresponding number in the previous round was 43%. Proportion of respondents foreseeing better order book over the next six months also declined to about 62% vis-à-vis 68% stating likewise in previous round.

Credit Situation

With respect to credit, a rise was noted in the proportion of respondents stating the availability of credit as a constraining factor. About 29% of the

companies reported availability of credit as a major concern as compared to only 20% stating the same in the previous round.

Around 39% participants reported cost of credit to be a bothering factor in the present round, which was same as the last survey.



The survey findings indicate that the companies are still paying an average interest rate of 12.0% on term loans and an average interest rate of 11.5% on working capital loans. Also, the rate is particularly higher (a little over 12.0%) for companies having a turnover less than Rs 500 crore in case of both term and working capital loans.

Industry on Goods and Services Tax...

Goods and Services Tax (GST) is expected to be a game changer for India's economy and has finally come in to force from July 1, 2017. GST will enable the remarkable shift of unorganized sector into the formal economy, subsequently adding to the overall growth in the economy.

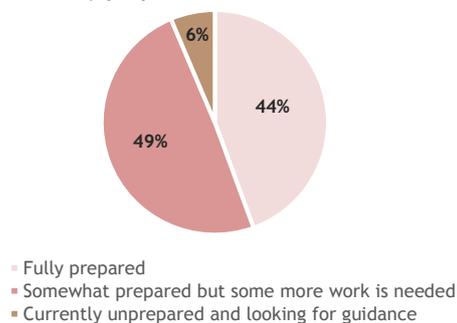
The mood of the industry seems upbeat with around 64% of the respondents expressing satisfaction with the GST rate allotted to their respective sector/product.

Apart from the initial transition glitches, *GST will certainly help in improve ease of doing business by streamlining processes and enabling cost savings.* The new regime provides an opportunity to streamline the supply chain.

The respondents were asked to indicate their preparedness on the GST framework. *While 44% of the participants were fully prepared for the transition to the new tax system, 49% of the participants cited that they were somewhat ready for the new system.*

Furthermore majority of the participants, 71%, cited that their vendors are somewhat prepared and additional work/readiness in required.

44% respondents cited that they are fully prepared for the transition...



The respondents were also asked to rank their areas of focus while preparing for transition to GST on a scale of 1 to 5; 1 being the least focus area while 5 indicated maximum focus.

Majority of the respondents cited reconfiguring IT systems and training of F & A personnel to be key focus areas in preparing for the transition. About 58% of the companies reported utmost importance being given to the former while about 50% stated that latter demanded maximum focus. Respondents cited aligning of vendors to the GST network, realigning of pricing strategy and focus on supply chain and logistics as the other focus areas - in that order.

Participating companies were also asked to share the operational issues that would come in the way of implementation and suggest measures on how the transition to GST could be smoothened.

Majority of the respondents stated that filing of multiple returns and entering exact data are major challenges that they expect to arise. It was felt that infrastructural delays, jamming of networks and blockage of funds can cost dearly to the industry.

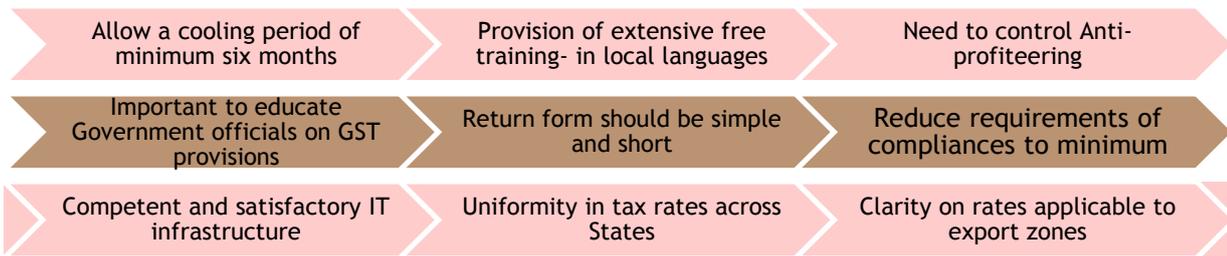
Coordination between Centre and States is also likely to play a critical role in smooth implementation of GST.

Many participating companies raised serious concern about lack of availability of cost efficient trainers required by many small and medium enterprises for necessary compliance. Lack of

internet facilities and limited access to digital technologies in small towns is expected to add to the woes of the small merchants.

It was also told that there are certain areas where the companies do not have clarity. These pertain to lack of clarity on availing input tax credit and concerns regarding the treatment of exports/imports under the GST regime.

Measures suggested to ease the pain from initial hiccups in implementation



Survey Profile

The survey drew responses from about 200 companies with a turnover ranging from Rs 5 crore to Rs 10,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period July 2017 to December 2017.

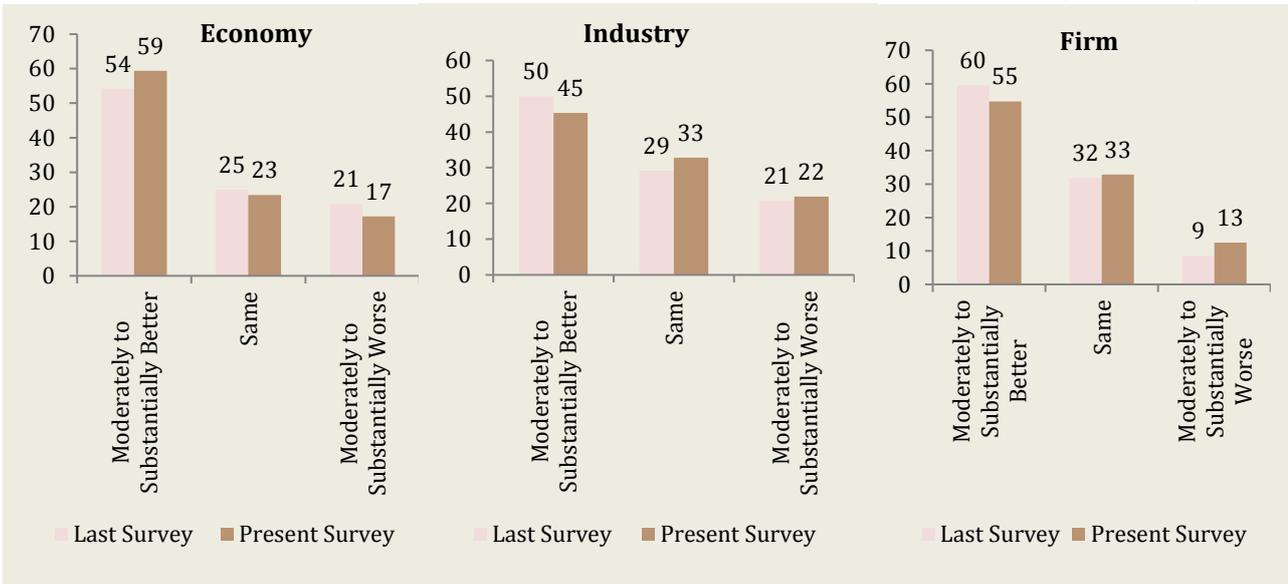
Broad Sectoral Coverage

Industrial Engineering	Gems & Jewellery	Textile	Mineral Resources
Industrial Consumables	Agricultural Equipment	Information Technology	Food Processing
Financial Services	Leather & Leather Products	Rubber & Rubber Products	Electronic Products
Oil & Gas	Paper & Paper Products	Real Estate	Pharmaceutical
	Steel & Steel Products	Defence & Aerospace	

Detailed Survey Findings

Current Conditions vis-à-vis last six months

(Proportion of respondents)

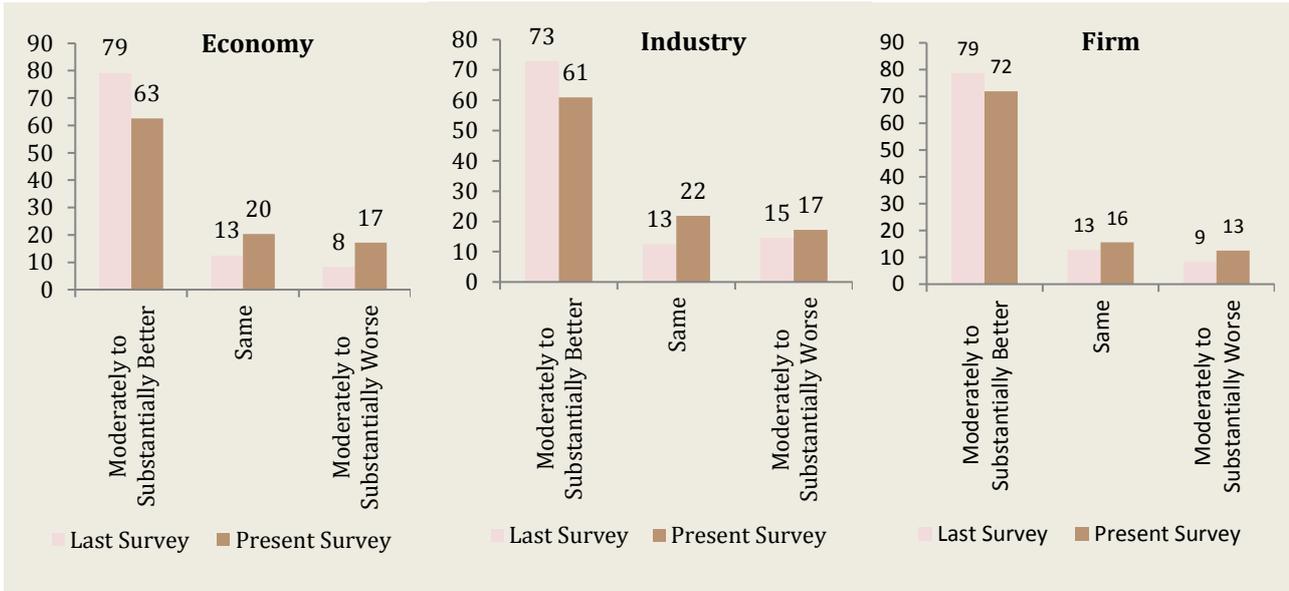


The latest survey reported moderation in the assessment of respondents with regard to current conditions compared to last six months. Nonetheless, the participants were a little optimistic about the current conditions at the economy level compared to their assessment of the industry and firm level situation.

The proportion of respondents citing the current economic conditions as ‘moderately to substantially better’ relative to the previous two quarters increased to 59% in the present round. In the last survey 54% of the participants had stated likewise. However, 45% of the respondents at industry level and 55% at firm level reported improved current conditions vis-à-vis last six months as compared to 50% and 60% of the participants citing the same in the previous round. Correspondingly, a marginal increase was noted in the percentage of respondents citing conditions to have worsened vis-à-vis last six months at both industry and firm levels.

Expected performance over next six months

(Proportion of respondents)



Further, the expectations of respondents were not as buoyant in the latest survey round as was the case in the last round. The survey results cited a moderation in the outlook of participants at all three levels - economy, industry and firm- over the period July-December 2017.

About 63% 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 79% in the previous round. Likewise, at industry and firm level, 61% and 72% of the participating companies respectively reported that they expect an improved performance over near term. The corresponding numbers in the previous round were 73% and 79% respectively.

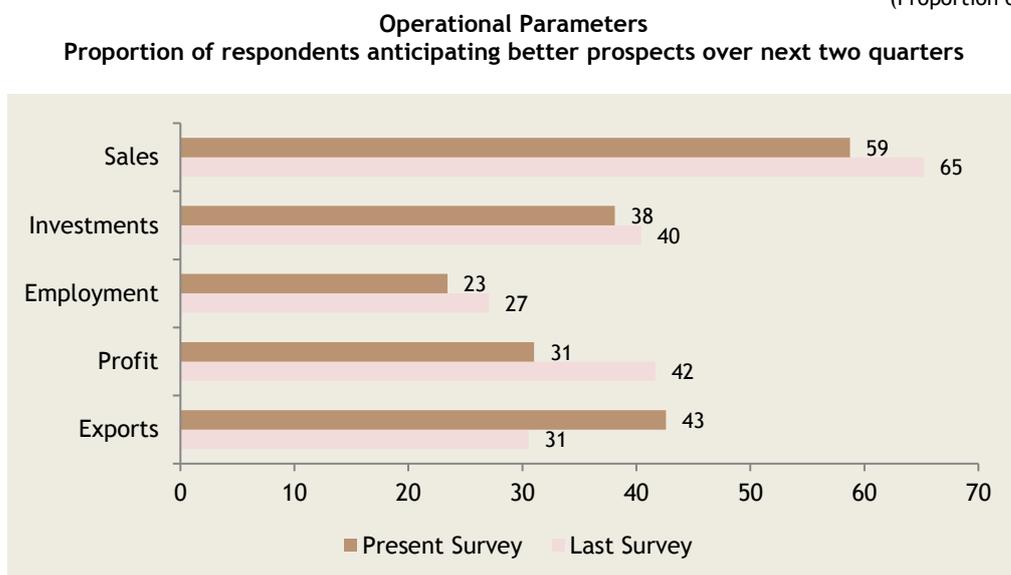
Overall Business Confidence Index



Latest survey results indicate a marginal dip in the sentiment of respondents with regard to both, current conditions as well as the expectations for the coming six months. The Overall Business Confidence Index reported a slight fall, by 2 points, in the present round and stood at 66.1. In the last survey, the Overall Business Confidence Index value stood at an eight quarter high of 68.3.

Outlook on operational parameters report mixed results

(Proportion of respondents)



Feedback received on operational parameters indicated that a turnaround is yet to find firm ground. Except exports, outlook on other parameters - sales, investments, employment and profits - has moderated.

About 59% of the companies participating in the present survey cited an increase in sales over the next two quarters. This was 6 percent points lower than 65% stating likewise in the previous round. The survey results report a strain in demand conditions. In fact, around 73% of the respondents cited weak demand to be a constraining factor in the current survey round, vis-à-vis 59% stating likewise in the previous round. Nonetheless, rural demand is expected to pick up going ahead backed by a good monsoon and expectation of robust food production. Also, the upcoming festive season will provide some thrust to consumption activity.

Outlook on investments remained weak in the current survey round. Persistence of weakness in the private sector investments even amid a strong push to public investments is a matter of concern. A sustainable turnaround in the domestic private capex cycle is critical for growth and employment generation 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 38% of the participating companies indicated that they foresee higher investments over the next two quarters. The corresponding figure in the previous round was 40%. Further, about 17% of the participants anticipated lower investments during the period July to December 2017. This is around 13 percentage points higher than the proportion of participants stating likewise in the previous round.

The companies continue to operate at sub-optimal capacities and the capacity utilization rates have not seen an improvement for some time now. In the present round, less than half (43%) of the participating companies indicated that they are operating at over 75% capacity. The corresponding figure in the previous round was 45%. Studies indicate that companies think of bringing on board fresh investments only when they hit a capacity utilization rate of about 80%.

Moreover, the Reserve Bank of India has maintained a neutral stance on the monetary policy. The industrial growth as reflected by the Index of Industrial Production remains volatile and a continued policy thrust from Government and Reserve Bank is critical. The 25 bps cut in the repo rate announced by the Reserve Bank of India is a welcome move and will boost both industry and consumer sentiment. However, there is a need for a further rate cut given the current situation.

Capacity Utilization Rates

(Proportion of respondents)

	Present Survey	Last Survey
Below 75%	57	55
Above 75%	43	45

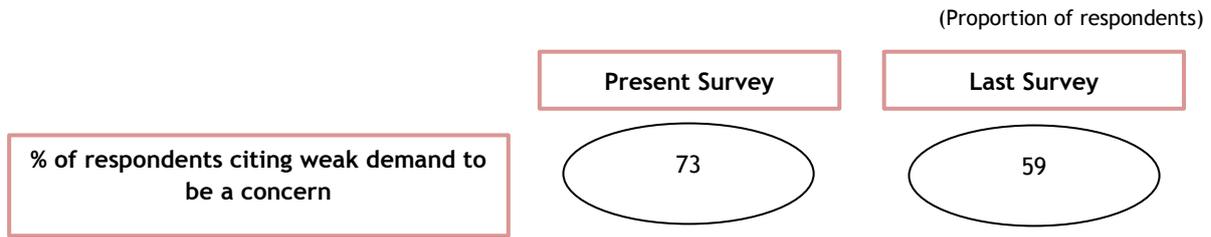
Further, only 31% of the participating companies anticipated an increase in profits over near term, vis-à-vis 42% stating likewise in the previous round.

Outlook of respondents with regard to employment generation was also muted with only 23% respondents looking forward to hire new employees in the near term. In the previous round 27% companies had stated the same.

The only silver lining, in an otherwise clouded outlook, appeared around exports. Participants seemed optimistic about export prospects over the next two quarters. About 43% respondents said that they foresee higher exports over the near-term vis-a-vis 31% respondents stating likewise in the previous round. The actual export growth numbers for India have reported a pickup in the past few months. The global economic situation is gradually improving. India's shipments to its major export destinations like United States, Euro Area have indicated an improvement. Nonetheless, downside risks remain imminent and it remains critical for India to revisit its export strategy. The review of the foreign trade policy (to be announced in September 2017) especially in light of the introduction of Goods and Services Tax is being looked forward too.

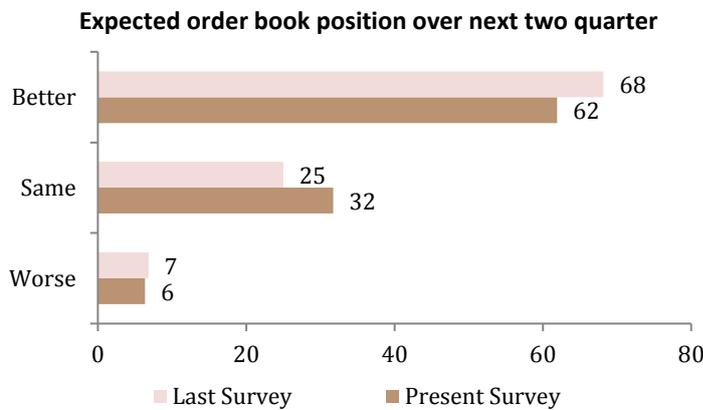
Key constraining factors for businesses

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



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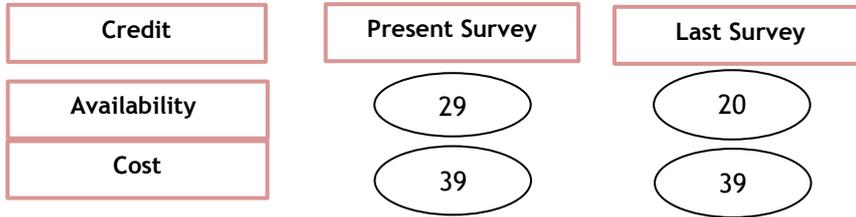


However, as stated earlier an uptick in demand could result from good monsoons, expectation of a robust production and the forthcoming festive season all of which could act as supporting factors. Over the medium to long term, it will be important to work on enhancing India’s export competitiveness.

Credit Situation

Availability of credit reported to be a concern by 29% of the respondents, while 39% respondents reported cost of credit a bothering factor

(Proportion of respondents)



There wasn't any change in the proportion of respondents citing cost of credit as a worrisome factor in the present survey round vis-à-vis the previous round. However, a rise was noted in the proportion of respondents stating availability of credit as a constraining factor. About 29% of the companies reported availability of credit as a major concern as compared to only 20% stating the same in the previous round.

The survey findings indicate that the companies are still paying an average interest rate of 12.0% on term loans and an average interest rate of 11.5% on working capital loans. Also, the rate is particularly higher (a little over 12.0%) for companies having a turnover less than Rs 500 crore in case of both term and working capital loans.

Raw material costs challenge for 45% respondents

(Proportion of respondents)

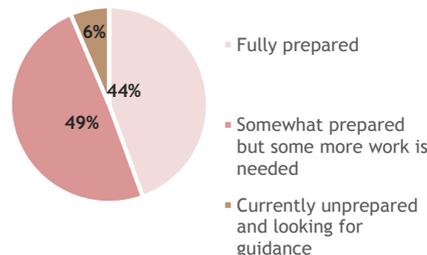


In the present survey, rising raw material prices were reflected to be a constraining factor by 45% of the respondents. This was lower than 62% of the participants stating the same a year back. The corresponding figure in the previous survey round was 61%.

Industry on Goods and Services Tax...

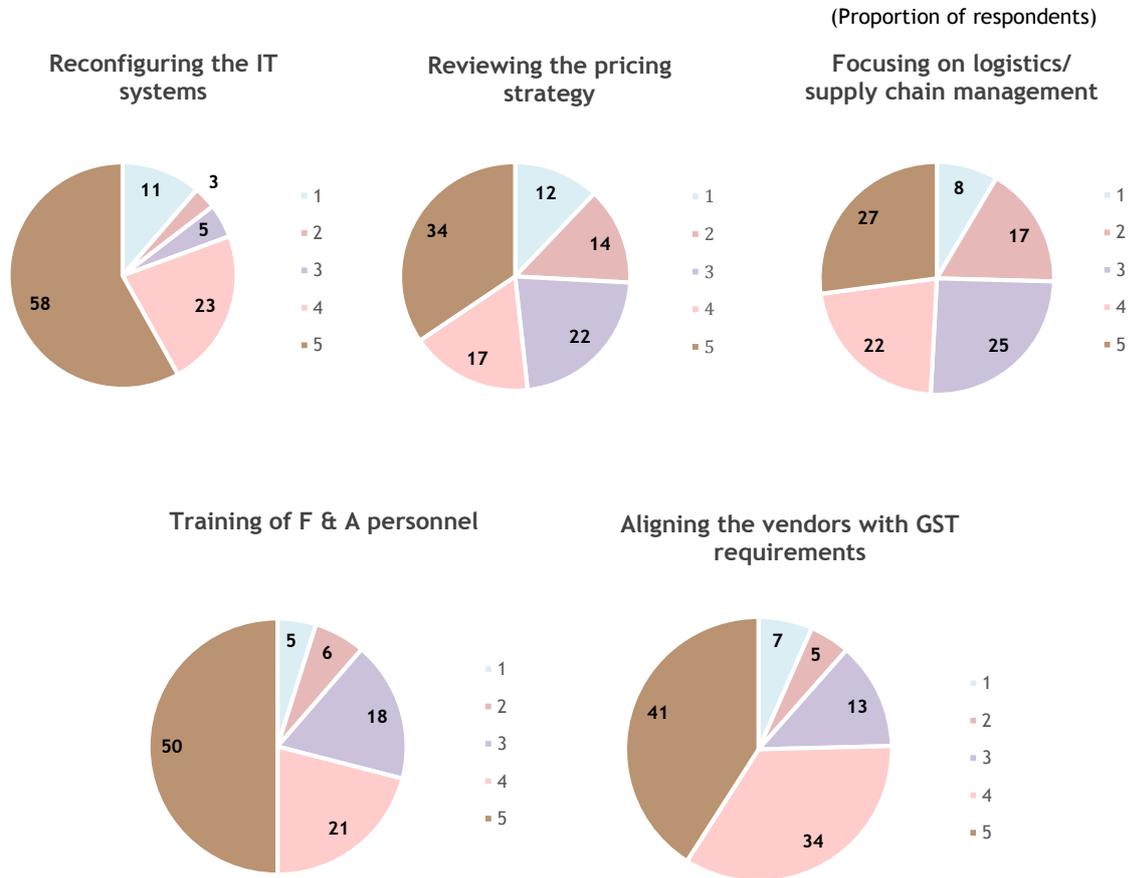
Goods and Services Tax (GST) is expected to be a game changer for India's economy and has finally come in to force from July 1, 2017. The mood of the industry seems upbeat with around 64% of the respondents expressing satisfaction with the GST rate allotted to their respective sector/product. Apart from the initial transition glitches, GST will certainly help in improve ease of doing business by streamlining processes and enabling cost savings.

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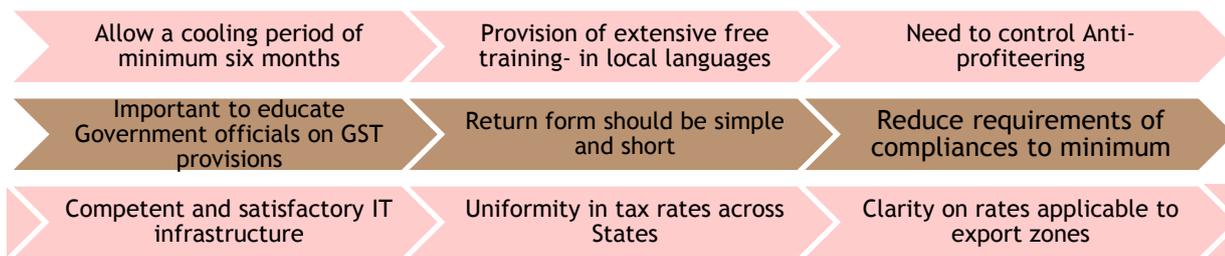
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Majority of the respondents stated that filing of multiple returns and entering exact data are the major challenges that are likely to arise. It was felt that infrastructural delays, jamming of networks and blockage of funds may cost dearly to the industry. Coordination between Centre and States is also likely to play a critical role in smooth implementation of GST.

Many participating companies raised serious concern about lack of availability of cost efficient trainers for small and medium enterprises for necessary guidance on compliance. Lack of internet facilities in small towns is expected to add to the woes of the small merchants.

It was also told that there are certain areas where the companies do not have clarity. These pertain to lack of clarity on availing input tax credit and concerns regarding the treatment of exports/imports under the GST regime.

Measures suggested to ease the pain from initial hiccups in implementation



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