



# **Business Confidence Survey**

**February 2018**

# Business Confidence Survey

February 2018

## Summary

**Survey reports improvement in Confidence Level...  
Some signs of return in pricing power of companies...  
Profit outlook better...  
Demand situation seen improving**

The latest round of FICCI's Business Confidence Survey reveals optimism amongst members of India Inc. The Overall Business Confidence Index moved up 6 notches and stood at 71.6 in the current round – which is the highest value reported in almost eleven quarters. This buoyancy in sentiment is backed by an improvement in current conditions as well as positive expectations about future.

Current conditions index reported a significant ten-point improvement in the present survey vis-à-vis the previous round and stood at 67.0. In fact, the current conditions index has not scored this high since Q2 2010-11. The improvement in current conditions suggests that the setback in the second quarter on account of introduction of GST has started to recede. The government's proactive role in ironing out the disruptions arising out of GST implementation has been appreciable.

In fact, this improvement is also corroborated in the latest IIP numbers which reports a conspicuous recovery in the month of November 2017. Other lead indicators such as increased sales in the automobile segment - commercial as well as passenger, two and three wheelers, and the Nikkei India Manufacturing Purchasing Managers' Index suggest signs of recovery are on anvil.

The demand pulse also seems to be gaining traction. In fact a little less than half (48%) of the respondents cited weak demand as a constraining factor in the present round. The corresponding number was 67% in the previous round. The improvement in demand conditions is also reflected in the marginal uptick noted in the proportion of respondents citing better capacity utilization rates. In the present round 50% respondents said that their capacity utilization rate is over 75%; vis-à-vis 46% stating the same in the last survey.

Moreover, the latest survey results indicate participants foreseeing some improvement in their pricing power over the near term. About a quarter of the respondents cited that they expect a 'higher to much higher' selling price over the next six months; the corresponding proportion was 12% in the previous round. This forecast is also supported by a better outlook anticipated in case of operational parameters such as profits and employment.

In the present round, 43% participants expected higher profits vis-à-vis 35% stating the same in the last survey. The outlook with respect to employment also improved with 30% respondents indicating increase in hiring activity over the near term

**Overall Business  
Confidence Index at  
eleven quarter high**

**Demand situation  
improving**

**Near term profit and  
employment outlook  
better**

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as compared to just 20% stating the same in the previous round.

As for sales, about 63% respondents indicated higher sales in the next two quarters which was not much different from 62% reporting likewise in the previous round.

However, the participating companies did indicate some apprehension about the increase in raw material costs. In fact, two thirds of the respondents (about 66%) in the present round stated rising cost of raw materials to be a bothersome factor. The corresponding number in the previous round was 56%. International crude oil prices have been on an upswing and touched the highest in almost three years in December 2017. Global prices of metals and minerals have also been inching upwards adding to the increase in input costs.

With regard to investments, while the outlook on undertaking fresh investments did notice slight improvement in the present round; not much change has been seen on this front over the consecutive survey rounds. About 45% participants said that they foresee higher investments over the coming two quarters vis-à-vis 41% stating the same in the last survey.

Nonetheless, about three quarter of participants said that they see actual investments rolling out within a span of one year.

The participating companies were also asked to indicate the top factors that are limiting their plans for capacity expansion. A significant proportion of participating companies cited volatility in demand conditions, cheaper import substitutes and frequent changes to policies as the major impediments to undertaking fresh investments. The respondents felt that it is better to adopt a wait and watch approach until the investment climate is more stable. Respondents felt that higher costs of production on account of rising input prices, along with overvalued currency are also undermining the competitiveness of domestic industry. With performance of the banking sector under stress, lack of availability of affordable capital was another concern flagged by the participants.

The outlook of participants on exports remained unchanged from the previous survey round. Even though the world trade has noted a rebound, the inward looking policies being adopted by some countries pose a challenge. The participants felt that exporters need to be further incentivized.

The companies were also requested to share views on what should be the top priorities for the government in 2018. The respondents felt that the government should keep an unwavering focus on making India a global manufacturing hub; reduce corporate tax rates; reform labor laws; evaluate FTAs; reduce logistics cost; and address distress in the agriculture sector on a mission mode basis.

**Rising raw material costs a worry....**

**Respondents foresee investments rolling out within next 12 months....**

**Participants felt that exporters need to be incentivized further....**

**2018 Priorities...**

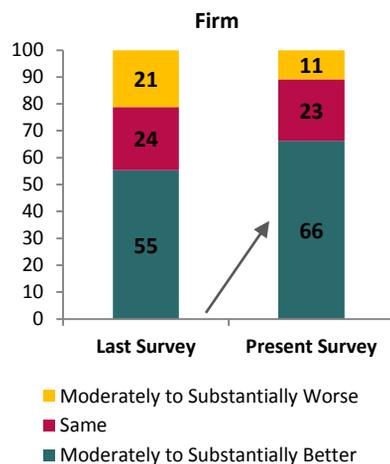
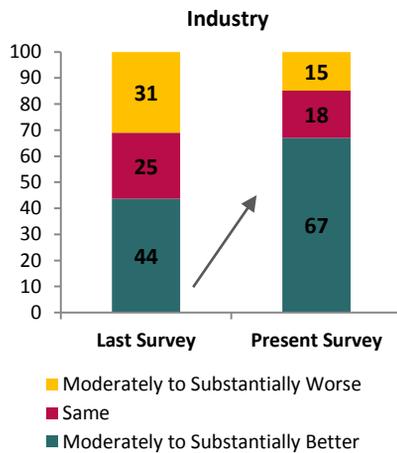
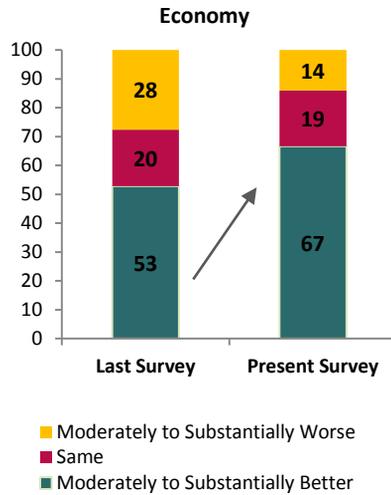
- ✓ **Keep the Focus on Manufacturing**
- ✓ **Reduce Corporate Tax Rate**
- ✓ **Reform Labor Laws**
- ✓ **Make Available Affordable Funds**
- ✓ **Evaluate FTAs**
- ✓ **Reduce Logistics Cost**
- ✓ **Address Agriculture Sector Concerns**

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## Current conditions vis-à-vis last six months

Current conditions vis-à-vis last six months report an improvement....



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

This result is also corroborated by the improvement noted in some of the other indicators. Industrial performance as reported in the recent IIP numbers has seen an improvement. There are indications that simplification of GST regime has de-clogged the manufacturing sector to some extent. In fact, some of other lead indicators such as PMI, passenger and commercial vehicle sales also point towards recovery.

The proportion of respondents citing current economic conditions as 'moderately to substantially better' relative to previous six months increased to 67% in the present survey vis-à-vis 53% of the participants who stated likewise in the previous survey.

Further, 67% of the respondents at industry level and 66% at firm level reported improved current conditions vis-à-vis last six months as compared to 44% and 55% of the participants who reported likewise in the previous round.

Correspondingly, the proportion of respondents who reported that current conditions to have weakened vis-à-vis last six months declined by almost 50% at all three levels – economy, industry and firm.

# Business Confidence Survey

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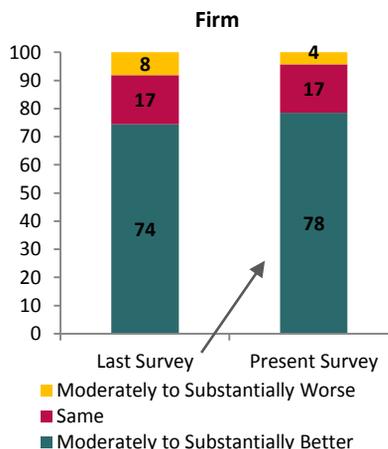
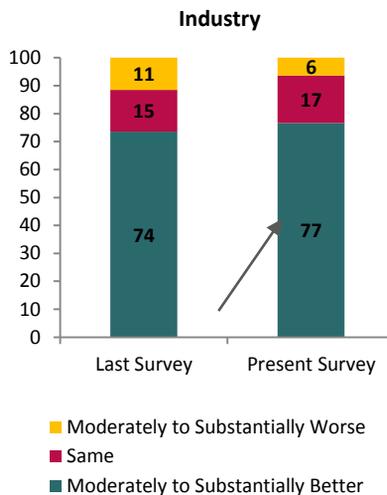
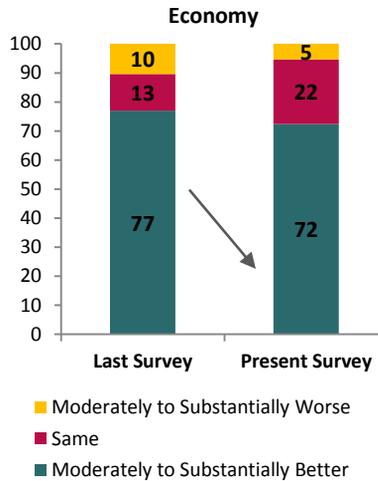
## Expected conditions over next six months

Respondents also seemed more optimistic about near term prospects in the latest survey compared to previous round.

Survey results reported an improvement in the outlook of participants at the industry and firm level. However, optimism about near term economic prospects noted slight moderation.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over the next six months moderated to 72% in the current survey compared to 77% who reported likewise in the previous round.

On the other hand, 77% and 78% of the surveyed companies reported that they expect an improved performance over the coming six months at their industry and firm level. The corresponding number in the previous round was 74% for both industry and firm level.



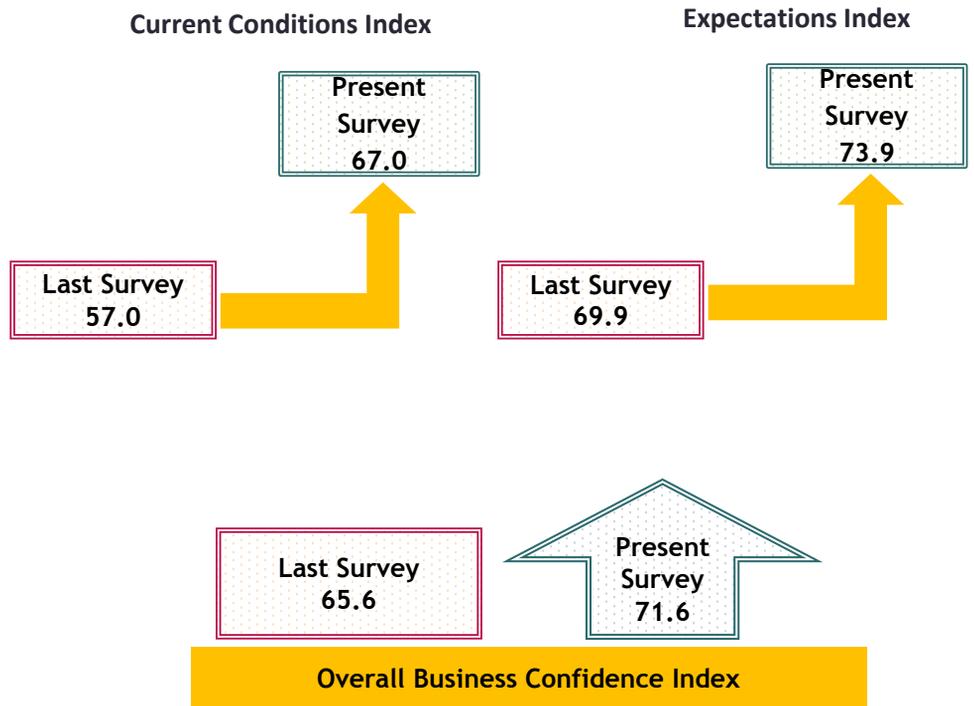
Respondents expect improvement in industry and firm level conditions over the period January-June 2018....

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## Business Confidence Index

Overall Business Confidence Index at eleven quarter high...



OBCI at eleven quarter high of 71.6...

Business sentiment improving with economy adjusting swiftly to GST...

Latest survey results indicate recovery in the overall sentiment of respondents both with regard to current conditions as well as their expectations about the future.

Measures like demonetization and transition to GST - did hit business sentiment temporarily. However, the economy is adjusting rapidly to these changes and with the government maintaining a supportive stance to iron out any outstanding issues, the buoyancy in confidence level is gradually gaining ground among members of the business fraternity.

Overall Business Confidence Index increased by 6 points in the present survey and stood 71.6.

# Business Confidence Survey

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## Operational Parameters

### Investments

(Proportion of respondents)



The proportion of respondents citing 'higher to much higher' investments over the near term noted a V-shaped recovery since the corresponding survey round in the previous year (Q3 2016-17) - which was the first survey post demonetization.

Nonetheless even though outlook on fresh investments may have improved marginally over the past year; however not much change is evident if one reads the numbers for consecutive quarters.

In the current survey, 45% participating companies anticipated an increase in investments over the next two quarters. The corresponding number in the previous round was 41%.

Further, the participating companies were also requested to indicate the top factors that are limiting their plans for capacity expansion.

A significant proportion of participating companies cited volatility in demand conditions, cheaper import substitutes and frequent changes in policies as the major impediments to undertaking fresh investments. Respondents felt that it is better to adopt a wait and watch approach till stability returns.

Respondents felt that higher cost of production on account of rising input prices, along with an overvalued currency is undermining the domestic industry's competitiveness. Also, high taxes and inadequate infrastructure were also put forth as major concerns.

With performance of the banking sector under pressure, lack of availability of affordable capital was another concern flagged by the respondents. Banks are reluctant to lend fresh capital, especially to sectors which have been at the forefront of the insolvency process.

**Investment outlook sees marginal improvement....**

**Volatility in demand, frequent changes in policy, high input prices, overvalued exchange rate put across as some factors affecting investment plans....**

# Business Confidence Survey

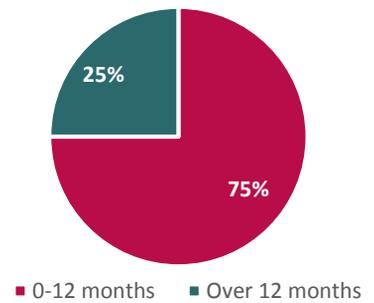
February 2018

## Operational Parameters

Participating companies were also asked to share their opinion on the expected timeframe of a pickup in the investment cycle. About three fourths of participants said that they foresee actual investments rolling out within a span of one year.

With the insolvency proceedings against certain high value NPA accounts in full swing and government remaining serious about the resolution of twin balance sheet problem, investments are expected to gain momentum going forward.

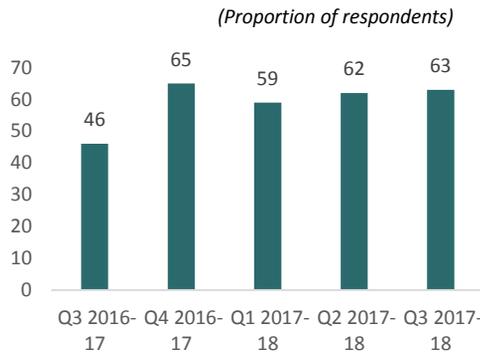
When do you expect investments to actualize?



3/4<sup>th</sup> participants see investments rolling out in a year's time....

Sales prospects remain steady...  
... demand sees signs of pickup

## Sales



Survey results report not much change in the outlook of respondents with respect to sales.

63% participating companies anticipated an increase in sales over the next two quarters, vis-à-vis 62% stating likewise in the previous round.

The buoyancy in sales can be attributed to some improvement noted in the demand conditions. The economy is recovering from the headwinds caused by the new taxation regime and sales are expected to recover.

Latest sales growth numbers for commercial and passenger vehicles, three and two wheelers, FMCG products have been encouraging indicating a pickup in both rural as well as urban demand.

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## Operational Parameters

### Profits

A larger proportion of participating companies were positive about earning higher profits during the period January -June 2018.

Proportion of respondents citing higher to much higher profits increased to 43% in the present survey round which was the highest in about 14 quarters. The corresponding number in the previous round was 35%.

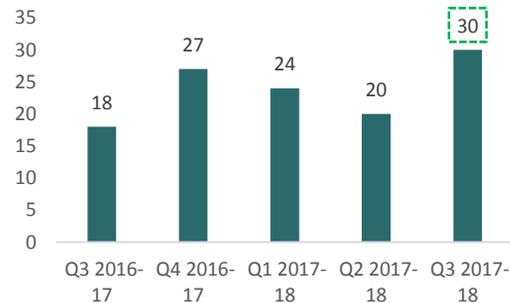
(Proportion of respondents)



However, firmer input prices and a stronger Rupee can put pressure on production costs and pose as key downside risks to earning prospects.

Survey results indicate an improvement in outlook on profits and employment over the period January – June 2018...

### Employment



Outlook on employment generation reported an improvement in the latest survey.

In the present round, about 30% respondents said that they foresee hiring new employees in the next six months; vis-à-vis 20% stating likewise in the previous round.

Better prospects on demand side as well as investments indicate likely revival in job creation over the near term.

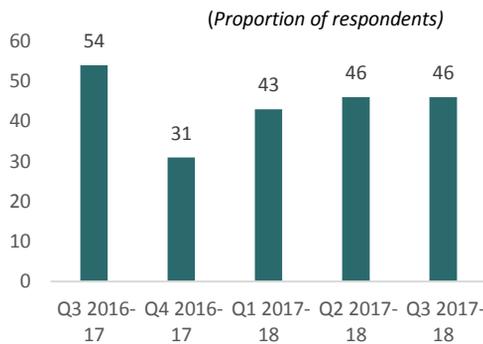


# Business Confidence Survey

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## Operational Parameters

### Exports



Outlook on exports remained unchanged with 46% respondents foreseeing higher to much higher outbound shipments in the latest survey.

According to the quarterly data available, exports expanded by 12.6% in the third quarter of 2017-18 as compared to 6.0% growth reported in the corresponding period previous year.

Exports prospects remain same...

There has been some improvement on export front after the government initiated refunds procedure under GST. Also, the government announced support measures for exporters in the recently announced review of Foreign Trade Policy 2015-2020. However, the participants felt that exports must be further incentivized.

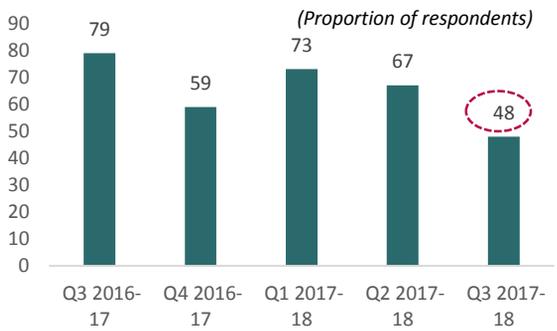
# Business Confidence Survey

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## Constraining Factors

**Proportion of respondents citing weak demand as a constraining factor drops to lowest in five quarters**

Demand condition is seen improving and the same was reflected in our latest survey as well. Less than half (about 48%) of the participating companies cited weak demand as a bothersome factor for their business. The corresponding number in the previous survey was 67%

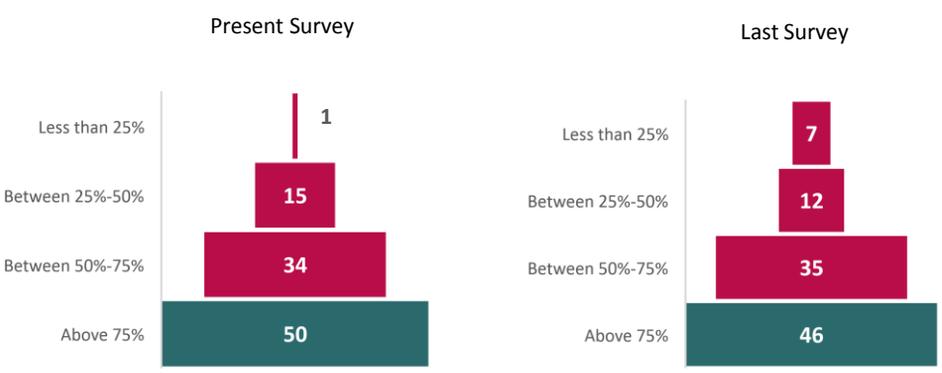


This is also reflected in the improvement noted in the capacity utilization rate of the companies. 50% of the respondents indicated a capacity utilization rate of over 75% in the present round; vis-à-vis 46% stating likewise in the previous round.

Demand situation seen improving....

....Marginal improvement noted in capacity utilization as well....

### Capacity Utilization (Proportion of respondents)



# Business Confidence Survey

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## Constraining Factors

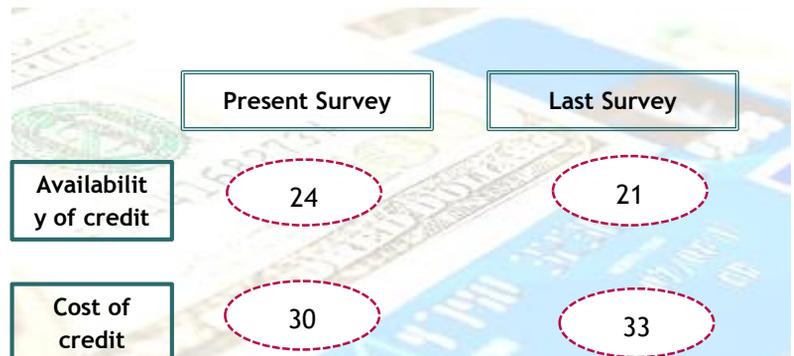
Regarding the current order book position, more than half of respondents claimed that they have better order book position in the latest round as compared to the previous survey round. 57% respondents felt that their current order book position has improved vis-à-vis last six months. The corresponding number in the previous round was 53%.



However, a marginal decline was noticed in the proportion of respondents who anticipated better order books over the next six months. 62% companies cited an improvement in their expected order book position in the current round vis-à-vis 64% stating likewise in previous round.

## Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor declined to 30% from 33% who stated the same in the previous round.



# Business Confidence Survey

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## Constraining Factors

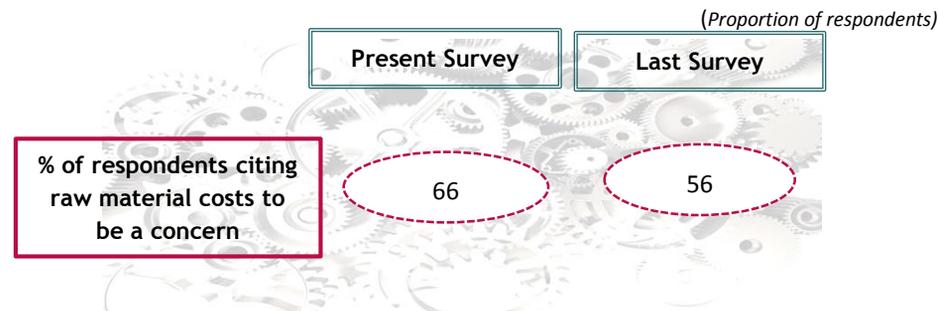
However on the contrary, proportion of respondents stating availability of credit as a constraining factor increased marginally. 24% of companies reported availability of credit as a major concern as compared to 21% stating the same in the previous round.

Survey findings indicate that companies are paying an average interest rate of 10.44% on term loans and an average interest rate of 10.27% on working capital loans.

**Average Interest on Term Loans: 10.4%**  
**Average Interest on Working Capital Loan 10.27%**

### Raw Material Costs

In the present survey, rising raw material prices were reflected to be a constraining factor by 66% of the respondents. The corresponding figure in the previous survey round was 56% and 62% a year back.



**Raw material costs posing a stress factor...**

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## *What should be top priorities for government in 2018?*

The participating companies were also requested to share views on what should be the top priorities of the government in 2018.

Participants strongly believed that the government should continue with its reform agenda to support the 'Make in India' initiative. The government has embarked on the right course, however, a lot more work needs to be done to make this campaign a true success.

An unwavering focus is required to boost the manufacturing sector - as it will not only address the growth concern but will also create the much needed jobs. In this regard, the government must lay greater thrust on research and development to continue encouraging innovation and promote entrepreneurship. Additionally, the government must ensure overall regulatory stability as frequent changes dent investor confidence and creates uncertainty.

A majority of participants called for further emphasis on ease of doing business, especially for the existing players in the industry. It was told that while the current focus of easing business environment has favored new companies/startups, the existing companies are still facing impediments. Interference by bureaucracy and long delays in getting various clearances/ approvals was cited as a major concern.

Also, participants unanimously felt that high taxes have contributed to the decline in India's competitiveness and called for a reduction in corporate tax rates to give them a competitive edge in the global arena.

On GST, respondents necessitated streamlining of GST and expediting input tax credit refunds as a priority for the government. They believed that issues relating to GST must be resolved at the earliest.

In addition, a majority of respondents said that it is vital to reform the existing labor laws in the country. Also, focus should be laid on skill development of the labor force to mitigate increasing labor cost burden.

The participants said that adequate availability of affordable funds needs to be ensured for private investments to pick pace. Also, the government should look at reviving public private partnerships.

### 2018 Priorities...

- ✓ **Keep the Focus on Manufacturing**
- ✓ **Reduce Corporate Tax Rates**
- ✓ **Reform Labor Laws**
- ✓ **Make Available Affordable funds**
- ✓ **Evaluate FTAs**
- ✓ **Incentivize Exports**
- ✓ **Reduce Logistics Cost**
- ✓ **Address Agriculture Sector Concerns**

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## *What should be top priorities for government in 2018?*

Further, the participating companies pointed out that the government's top most priority must also be to safeguard the domestic industry against dumping. The respondents felt that there is a need to evaluate India's FTAs.

Participants called for further incentivizing exports and improving the country's competitiveness by reducing the logistics costs and filling the infrastructure gaps.

Many respondents also felt that the government should address the distress situation in the agriculture sector and rural economy. This will not only redress supply side concerns but will also push domestic demand.

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## Survey Profile

The survey drew responses from about 200 companies with a turnover ranging from Rs 1.5 crore to Rs 3,40,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January 2018 to June 2018.

### Broad Sectoral Coverage

Chemicals	Yarns/Fabric	Textiles
Services	Agricultural Equipment	Banking
Toys/ Games	Retail	Aluminum Products
Energy	Paper & Paper Products	Plastics
Automotive	Steel & Steel Products	Defence & Aerospace
Food Processing	Electronic Products	Pharmaceutical

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