



Business Confidence Survey

June 2019

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Overall Business
Confidence Index
drops to 59.6

Weak demand a
worrisome factor for
industry participants

Summary

Overall Business Confidence Index slips for the fifth consecutive quarter Weak demand a major concern for industry participants

- The latest round of FICCI's Business Confidence Survey revealed a moderation in the optimism level of members of India Inc for the fifth consecutive quarter. **The Overall Business Confidence Index stood at 59.6 in the current round vis-à-vis an index value of 60.3 reported in the last survey.** Moderation in assessment regarding the current conditions pulled the overall index value down during the quarter.
- **In the present round, respondents continued to cite weak demand situation as a key concern.** In the current survey, 60% participants reported weak demand conditions as a bothering factor - which was the same as that reported in the previous round. In addition, participants indicated an increasing threat from imports. About 39% participants cited threat from rise in imports in the current survey as compared to 31% stating likewise in the previous round.
- About **58% participating companies stated higher raw material costs as a bothering factor in the present survey round. This was 8 percentage points higher than 50% participants stating likewise in the previous survey round.** Persistent volatility in crude oil prices, especially with the US decision on not extending special waivers to some large oil importing countries amid sanctions on Iran can further exacerbate the cost situation.
- The survey results allude to a marginal improvement in outlook for investments. **Around 39% participants said that they foresee higher to much higher investments over coming six months vis-à-vis 36% stating likewise in the last survey.**
- **Companies also seemed positive about their forecasts for sales and exports over next six months.** In the current survey round, around 53% 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 49%. Further, about 44% respondents cited higher outbound shipments over next two quarters. The corresponding number in the previous round was 31%.

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Summary

- The outlook on employment also witnessed some improvement in the present survey. About 29% participating companies said that they foresee a rise in hiring activity over coming six months, vis-à-vis 26% respondents citing the same in previous round. Nonetheless, a marginal increase was also noted in the proportion of respondents citing lower hiring levels in the latest survey.
- The outlook of participating companies with regard to profits, however, noted deterioration. In the current survey, 29% surveyed companies said that they foresee higher to much higher profits over next two quarters. The corresponding number in the previous round was 32%. The moderation in outlook on profits is despite a higher proportion of respondents anticipating an improvement in their pricing power. The rising raw material costs and muted demand conditions are likely to keep the profits subdued.

The respondents were also asked to share their views on certain contemporary issues and the same are shared below.

Factors affecting domestic demand and steps to improve the situation

- Participating companies cited persisting liquidity crunch and uncertainty around the election season as major factors impacting domestic demand conditions. The trend was exacerbated by lower purchasing power of consumers both in rural as well as urban areas.
- Additionally, respondents felt that the ongoing financial restructuring has also inhibited expansion plans of the corporate sector to some extent.
- Companies highlighted that tedious compliance of GST, rising cost of raw materials (especially energy costs) is leading to an increase in price levels of the final product and is also impacting the demand levels.
- Given these concerns, the participating companies called for greater investment by the government to crowd in private sector investments.
- It was also pointed out that enhancing investments in agricultural sector remains very critical for reviving the rural economy. Improving agricultural sector performance will also require efforts towards promoting modernization of farm equipment.
- A majority of participants felt that adequate liquidity must be ensured in the market.
- On external front, the respondents felt that government should proactively take steps to arrest increasing imports especially amid ongoing trade wars.
- On the whole, with a stable government in place, participating companies were optimistic about future prospects.

**Profit prospects
indicate deterioration**

Summary

Views on impact of slowing global trade growth

- A majority of participating companies said that they have noted a slowdown in outbound shipments in their key export markets. Major countries/ regions where impact was most notable included United States, United Kingdom, European Union and the Middle East.
- Respondents stressed that protectionist measures by major advanced countries, volatility in oil prices, uncertainty around Brexit are impacting the export outlook.
- On domestic front, the participating companies felt that narrowing corporate margins, rising input costs, rising unemployment and lack of skilled workers is adversely impacting India's competitiveness.
- To overcome these concerns, respondents said that they are looking at alternate markets to expand their export base.
- They also believed that the on going trade war between major economies must be seen as an opportunity to increase India's export base in the world - especially in places where China is vacating space.

Opinion on current lending rate

- Most participating companies were of the view that 50 basis points cut in repo rate was not enough to spur investments and that more cuts are needed going ahead. Even though they praised the steps undertaken by Central Bank to infuse liquidity into the system, they felt the need for an additional 50 basis points cut in the repo rate to support investments.
- Respondents argued that without significant transmission, it would be impossible to compete with peer countries such as China where interest rates are at low single digit levels compared to double digit levels in India.
- Some respondents also pointed out that a much greater concern at present is the availability of credit especially for small and medium businesses.
- The participants felt that stress in the banking sector as well as corporate balance sheets is a big structural challenge that needs to be quickly resolved.

Priorities for the new government

- A majority of surveyed companies believed that government must continue its focus on further easing the business environment.
- Simplified GST with quicker refund process and greater transparency, faster infrastructure projects approvals and improving e-governance must be taken up on a priority basis.

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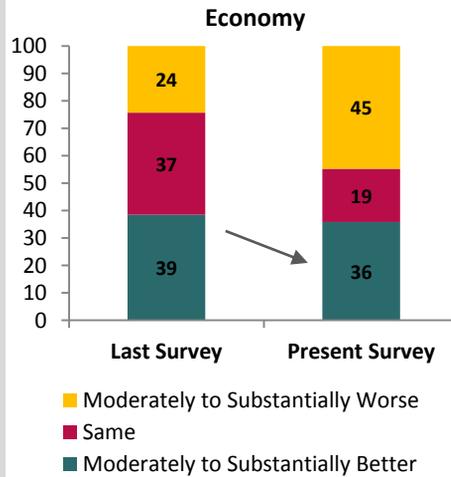
- Respondents opined that rectifying export import imbalance especially when the world is grappling with policies that are promoting protectionism is the need of hour. Reducing transaction and operational costs has to be taken up on priority.
- Other measures such as aggressively promoting Make In India campaign, reducing corporate tax, undertaking factor market reforms will also go a long way in enhancing India's competitiveness.
- The participating companies also emphasized on the need for resolving ongoing distress in rural and agrarian sector. They suggested that deep rooted structural reforms in agriculture sector are critical for achieving a long term solution to the recurring crisis in the farm sector. Participants added that government must take active steps to make agriculture a profitable sector.
- In addition, surveyed companies called for enhancing government spending in sectors such as health and education.
- The participants called for a quicker release of the New Industry Policy and its speedy implementation.
- Other major areas of focus suggested by the survey respondents included increased investment in defense, supporting the MSMEs sector and formulating environmentally sustainable policies.

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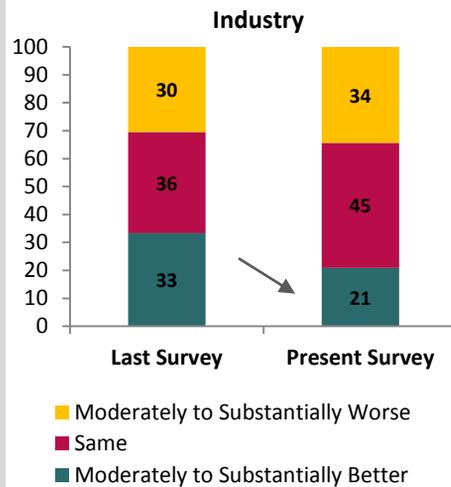
Current conditions vis-à-vis last six months

Assessment of respondents with regard to current conditions report moderation at all three levels vis-à-vis previous two quarters....



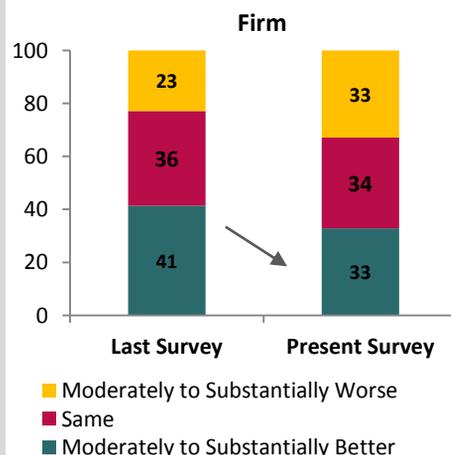
FICCI's latest Business Confidence Survey reports moderation in the assessment of respondents with regard to current conditions at all three levels - economy, industry and firm – vis-à-vis last six months.

In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined marginally to 36% vis-à-vis 39% respondents stating likewise in the previous round.



Only 21% respondents at industry level reported improved current conditions vis-à-vis last six months as compared to 33% participants reporting likewise in the previous round.

At firm level, 33% respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months. This was lower than 41% participants reporting likewise in the previous survey.



Consequently, an increase was noticed in the proportion of participants reporting current conditions to have worsened relative to last six months at economy, industry and firm level.

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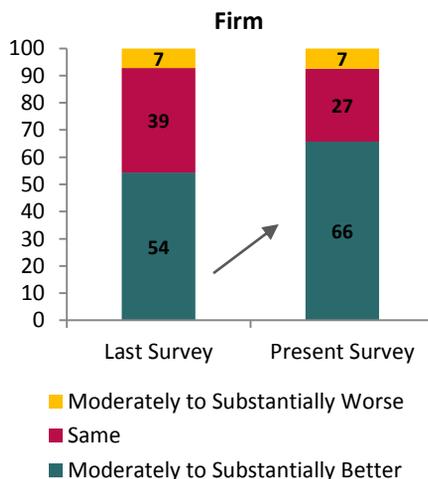
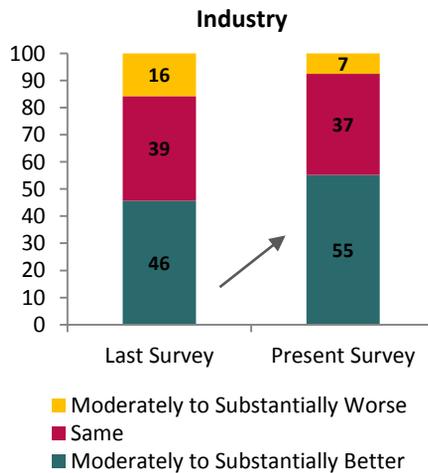
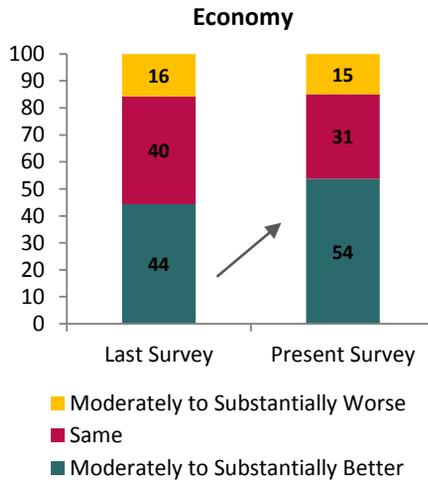
Expected conditions over next six months

The results of the latest survey, however, report an improvement in optimism level of respondents about near term prospects.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over next six months improved to 54% in the current round compared to 44% participants reporting likewise in the previous survey.

At the industry level, 55% of the participating companies expected a 'moderately to substantially better' performance over next two quarters in the current survey, as compared to 46% respondents stating likewise in the previous round.

Further, 66% of the surveyed companies reported that they expect an improved performance over coming six months at firm level. The corresponding number in the previous round was 54%.



Respondents report an improvement in expectations with regard to performance over the period April-September 2019....



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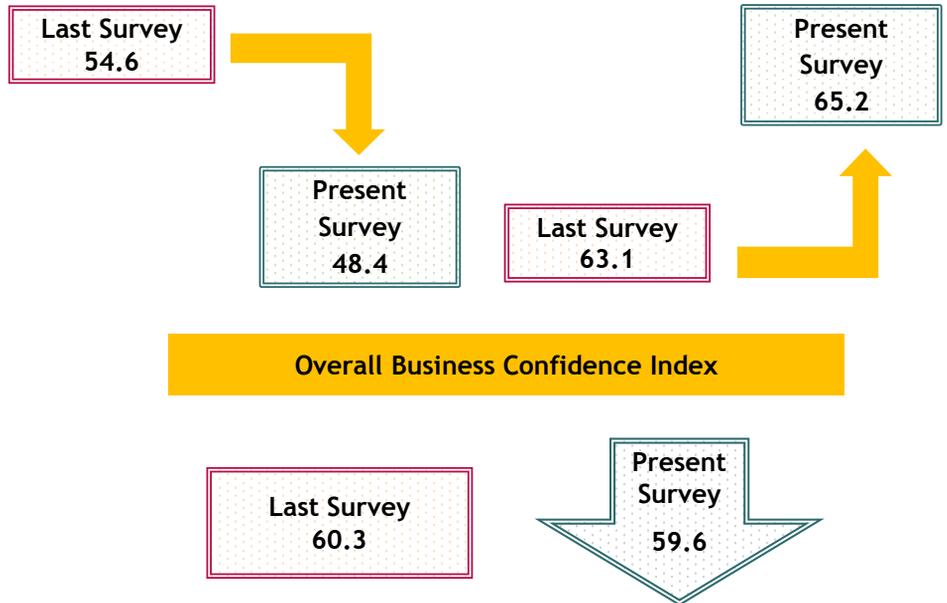
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Business Confidence Index

Overall Business Confidence Index

Current Conditions Index

Expectations Index



OBCI further dipped to 59.6 in the current survey vis-à-vis a value of 60.3 noted in the previous round...

...Moderation in Current Conditions Index led to the decline

Overall Business Confidence Index fell in the present round and stood at a nine quarter low of 59.6. The corresponding number in the previous round was 60.3. This was the fifth consecutive quarter when the confidence index reported a decline.

The assessment of respondents with regard to current conditions remained subdued, while expectations index reported some improvement in the latest survey round.

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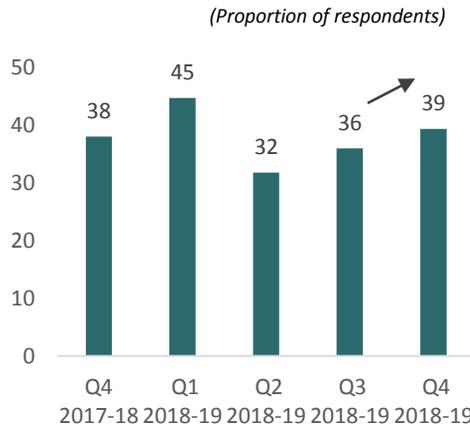
Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments over coming six months witnessed a marginal improvement in the current survey vis-à-vis previous round.

In the current survey, about 39% participating companies anticipated an increase in investments over the coming six months. The corresponding number in the previous round was 36%.

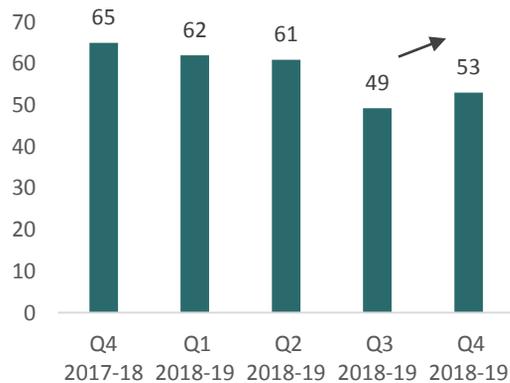
However, still a majority of participating companies cited investment levels to remain 'same or decline' going ahead. Investors continue to remain cautious.



Investment outlook improves....

Sales

(Proportion of respondents)



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

About 53% participating companies anticipate an increase in sales over next two quarters, vis-à-vis 49% respondents stating likewise in the previous round.

...and so does the outlook on sales

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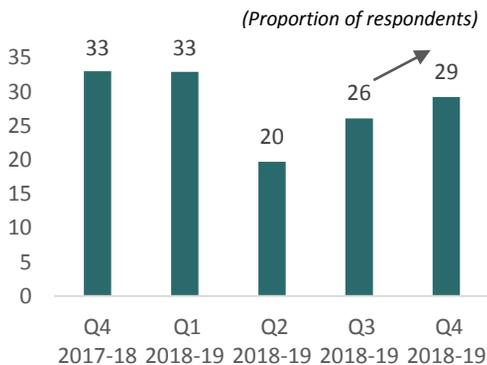
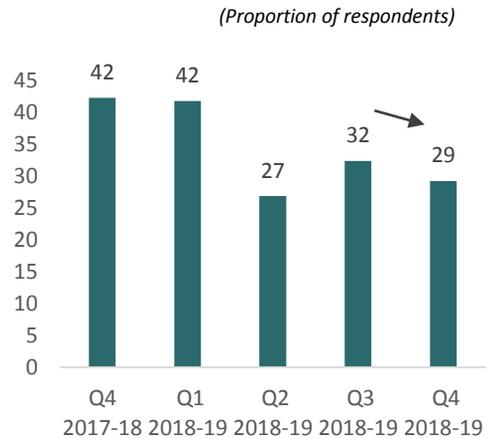
Survey results indicate a deterioration in the outlook on profits...

Operational Parameters

Profits

In the present round, outlook of participants with regard to profits witnessed some moderation. Proportion of participants citing higher profits over next six months declined to 29% in the latest survey from 32% respondents stating likewise in the previous round.

This is despite respondents anticipating some improvement in the pricing power going ahead. Nevertheless, rising raw material costs and muted demand conditions are expected to keep profit margins suppressed.



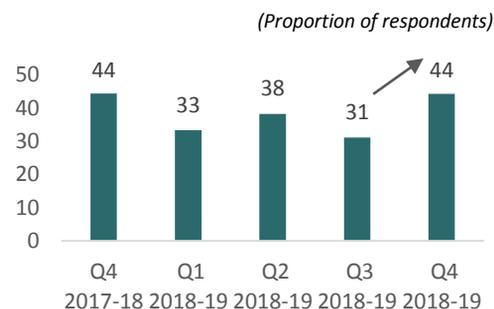
Employment

As per the latest survey results, outlook on employment generation continued to be positive for the second consecutive quarter. In the present round, about 29% respondents said that they foresee hiring new employees over next six months, vis-à-vis 26% stating the same in the previous round.

However, a marginal increase was also noted in the proportion of respondents citing lower hiring levels over the near term.

Exports

Surprisingly, the outlook of respondents with regard to exports noted an improvement. In the latest survey, 44% respondents said that they foresee higher to much higher outbound shipments over next two quarters. The corresponding number in the previous round was 31%.



....but suggests better prospects for exports

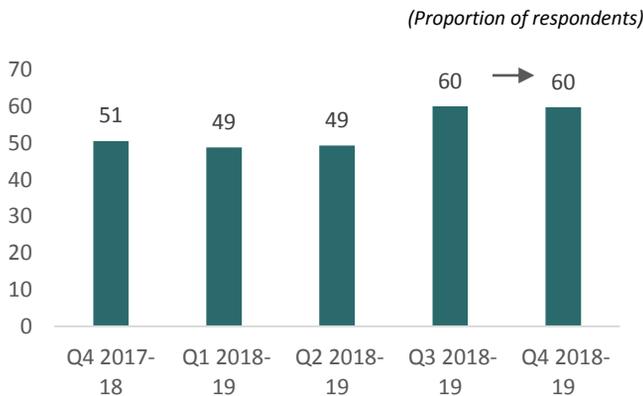
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Constraining Factors

Proportion of respondents citing weak demand as a constraining factor remained unchanged from the previous survey round

According to the results of our latest survey, a majority of participating companies continued to report a difficult demand situation. The proportion of participating companies citing weak demand as a bothersome factor for their business remained unchanged at 60% in the present round.



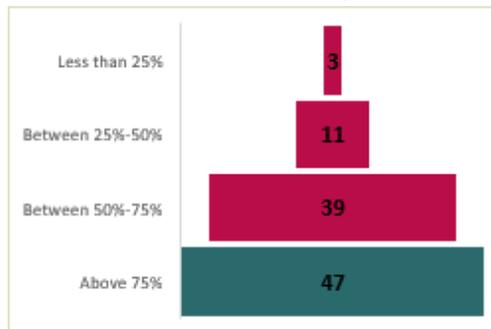
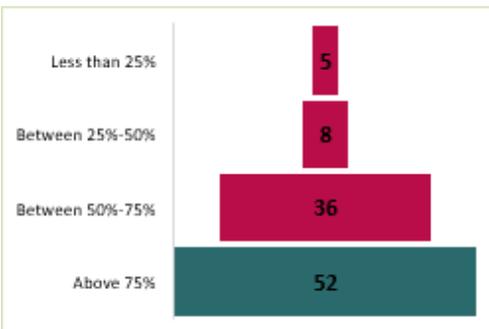
...60% respondents cited weak demand as a constraining factor...

Nonetheless, a little over half of the respondents, about 52%, indicated a capacity utilization rate of over 75% in the present round compared to 47% companies reporting the same in the previous round.

Capacity Utilization (Proportion of respondents)

Present Survey

Last Survey



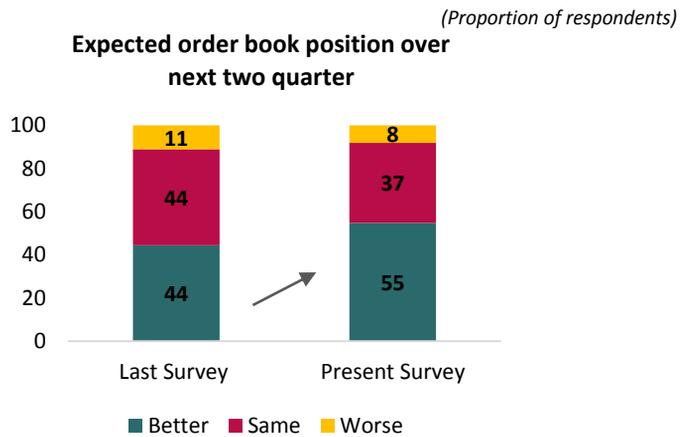
...52% respondents cited capacity utilization of more than 75%...

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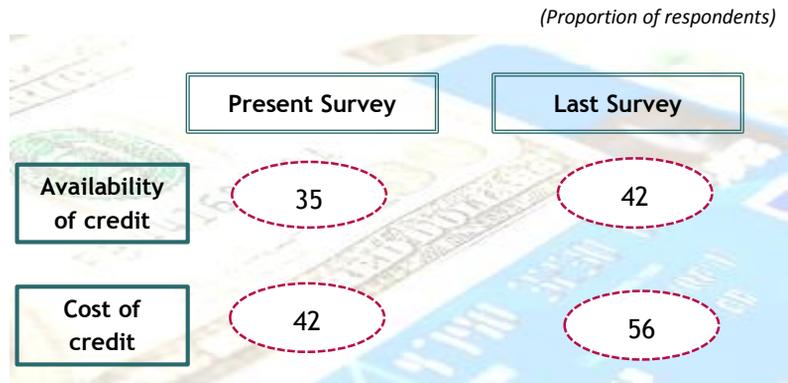
Constraining Factors

However in the current round, an increase was noticed in the proportion of respondents anticipating better order books over next six months. About 55% companies expected an improvement in their order book position in coming six months, vis-à-vis 44% participants stating likewise in the previous round.



Credit Situation

In the present survey, proportion of respondents citing cost and availability of credit as a bothersome factor noted a decline. About 42% participants cited credit costs as a concern. In the previous round, 56% respondents had stated the same.



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Constraining Factors

Further, around 35% respondents cited availability of credit as a bothersome factor. The corresponding number was 42% in the previous round.

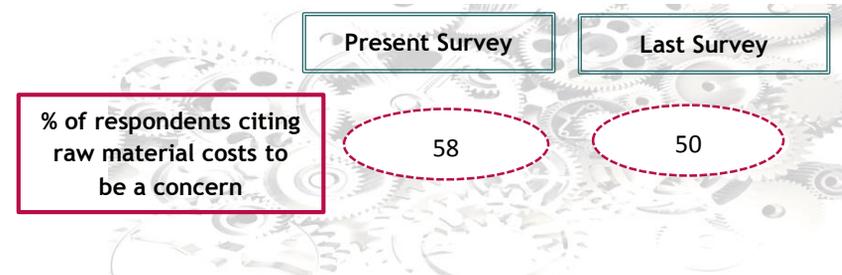
Survey findings indicate that companies are paying an average interest rate of 10.7% on term loans and an average interest rate of 10.8% on working capital loans.

Average Interest on Term Loans: 10.7%
Average Interest on Working Capital Loans: 10.8%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reported to be a constraining factor by 58% of the respondents. The corresponding figure in the previous survey round was 50%.

(Proportion of respondents)



Raw material costs pose a challenge for about 58% of the participating companies in the survey...

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Factors affecting domestic demand and steps to improve the situation

Weak demand has been cited as a key concern by majority of participants over the last few rounds of FICCI's Business Confidence Survey. Even RBI's recent Consumer Confidence Survey reported a downward revision in respondent's views with regard to consumer spending. Given this backdrop, the participating companies were asked to share their views on the factors behind this persisting weakness in demand and the ways in which the situation can be improved.

Participating companies cited persistent liquidity crunch and uncertainty in policies due to election season as the major factors impacting domestic demand conditions.

They felt that this trend was further exacerbated by lower purchasing power of consumers both in rural as well as urban areas. While the rural consumer is facing the heat from agrarian distress; the urban consumers, on the other hand, are getting increasingly concerned about job security and feel burdened by high tax rates.

Respondents also felt that the ongoing financial restructuring has inhibited expansion plans of the corporate sector to some extent. Moreover, closure of some big companies has resulted in an uncertain environment.

Companies highlighted that tedious compliance of GST, rising cost of raw materials (especially energy costs) are leading to increased prices of the final product and are consequently impacting the demand levels.

Amid these factors, the participating companies called for greater capital expenditure by government to crowd in private sector investments.

It was suggested that enhancing investments in agricultural sector remains critical for reviving the rural economy. Improving agricultural sector performance will also require efforts towards promoting modernization of farm equipment, ensuring a good price for agriculture produce and better crop insurance facilities.

The participants added that adequate liquidity must be ensured in market. Banks should continue to lend support to the corporate sector for expansion. Availability of affordable credit remains critical to drive investment activity in the economy.

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The participants felt that the government must continue to work on creating a conducive environment for businesses and one that supports employment creation.

GST compliance must also be made simpler. In addition, tax rates, both for corporates as well as individuals must be revisited and reduced. Larger employment opportunities together with increased purchasing power will help rebuild consumer confidence.

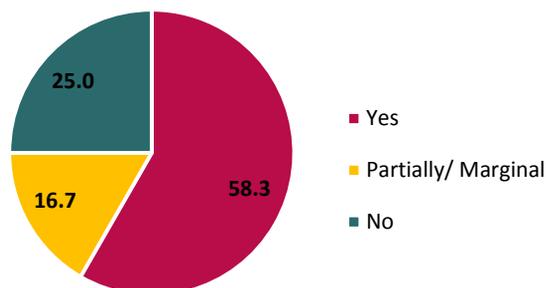
On external front, a majority of respondents felt that government should proactively take steps to arrest increasing imports especially amid the ongoing trade war.

With a stable government in place, participating companies were optimistic about prospects going ahead.

Views on impact of slowing global trade growth

The global economy is in the midst of a slowdown with IMF's most recent forecast further revising down global growth projections for 2019. The WTO, too, in its latest outlook has downwardly revised the world trade growth forecast for the year. Given this scenario, respondents were asked whether they have witnessed any signs of weakness in their key exports markets and a decline in demand.

Are you seeing signs of weakness in key export markets and a decline in demand?



A majority of the participating companies said that they are witnessing a slowdown in outbound shipments in their main export market. Major countries/ regions where impact was most notable included United States, United Kingdom, European Union and the Middle East.

Respondents stressed that episodes of worsening trade wars, protectionist measures undertaken by major advanced countries, volatility in oil prices, uncertainty around Brexit are all impacting the export outlook.

To overcome these concerns, respondents said that they are looking at alternate markets to expand their export base.

The participants added that narrowing corporate margins, rising input costs and lack of skilled workers is impacting India's productivity and competitiveness, thereby threatening export growth.

Participating companies also emphasized on the need for focusing on employee training to improve quality, delivery time and overall logistics to enhance productivity levels.

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The respondents added that the on going trade war between major economies must be seen as an opportunity to increase India's export base in the world, especially in places where China is vacating space.

Opinion on current lending rate

The Reserve Bank of India had cut the repo rate by 25 basis points in both February 2019 monetary policy as well as in April 2019. Given this backdrop, opinion of companies was sought on whether the 50 basis points cut in repo rate was enough to spur investments in the economy and also if banks had aptly transmitted the same by reducing the lending rate.

Most of the participating companies were of the view that 50 basis points cut in the repo rate was not enough to spur investments and that they look forward to more such cuts in near future.

Even though they praised the steps undertaken by the central bank to infuse liquidity into the system, they agreed upon the need for an additional 50 basis points cut to support investments.

The participants also indicated that an effective transmission of cut in policy rate into lower lending rates by banks is key to kick start the investment cycle. Respondents felt that without significant transmission, it would be impossible to compete with peer countries such as China where interest rates are at low single digit levels as compared to double digit levels in India.

Respondents added that availability of credit especially for small and medium businesses remains a concern. Stress in the banking sector as well as in corporate balance sheets is a bigger structural challenge that needs a quick resolution. In addition, adequate capitalization of bank balance sheets will go a long way in spurring investment.

Participating companies felt cuts in repo rate and other policy and structural changes must go hand in hand to spur investments in the economy.

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Priorities for the new government

The Narendra Modi led BJP- NDA government won the Lok Sabha elections, 2019 with a thumping majority. Companies were asked to list out key areas that the government must focus on in its first 100 days of assuming office.

A majority of the surveyed companies believed that government must continue its emphasis on further easing the business environment of the country. The government must continue to follow its motto of minimum government maximum governance in letter and spirit. Inspector raj, corruption, cumbersome compliance of policies and lack of clarity and accountability inhibits efficiency.

The government must ensure full implementation of its business friendly policies. Simplified GST along with quicker refund process, greater transparency, faster infrastructure project approvals and improving e-governance must be taken up on priority basis to further enhance the business environment.

The respondents added that India lacks basic infrastructure facilities which adversely impacts our industry's competitiveness amidst its peers.

To rectify the export import imbalance especially when the world is grappling with policies that are promoting protectionism, respondents were of the view that reducing transaction and operational costs is the need of hour.

According to the participating companies other measures such as aggressively promoting Make In India campaign, reducing corporate tax, undertaking factor market reforms will also go a long way in enhancing India's competitiveness.

Another major concern that respondents felt needed government's urgent attention was addressing the ongoing liquidity crisis. Participating companies recommended that resolution of all pending matters of the NCLT and financial restructuring must be expedited. Cleaning bank and corporate balance sheets is necessary for a fresh round of credit uptake. Measures must be taken to address the fear of lending that has gripped the banking sector. Recapitalization of banks must be fast tracked.

Participating companies also emphasized on resolving the ongoing distress in the rural and agrarian sector.

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They suggested that deep rooted structural reforms in the agriculture sector have become essential for achieving long term solution to recurring crisis in the farm sector .

Participants said that the government must take steps to make agriculture a profitable sector. It was suggested that an effective policy on farm exports will help the sector realize greater profits. Respondents believed that improvements in the farm sector will have ripple effect on other sectors as well. Most importantly, it will help nurture demand in the rural economy.

In addition, surveyed companies called for increasing government spending in sectors such as health and education. A healthy and a skilled workforce is an imperative to reap the benefits from our demographic dividend.

The participants also called for a quicker release and speedy implementation of the New Industry Policy.

Other major areas of focus for the government suggested by the survey respondents included increased investment in defense, supporting MSMEs and formulating environmentally sustainable policies.

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Survey Profile

The survey drew responses from about 155 companies with a turnover ranging from Rs 50 lakh to Rs 70,000 crore and belonging to a wide array of sectors. The survey gauges expectations of respondents for the period April 2019 to September 2019.

Broad Sectoral Coverage			
Chemicals	Textile/Apparel	Pharmaceutical	Metals
Agricultural Equipment	Financial Services	Electronics	Tourism
Energy	Engineering Goods	Services	FMCG
Automotive	Fertilizer	Industrial Machinery	Footwear
Hospitality	Steel & Steel Products		Communication

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