

# India Inc. cautiously optimistic

The latest round of FICCI's Business Confidence Survey reported not much change in the sentiment of the respondents. The Overall Business Confidence Index stood at 70.5, a tad higher than the value of 70.4 in the previous survey. The various announcements made by the government over the course of last seven to eight months did have a positive impact on the sentiment of the business community; however in order to sustain this buoyancy it will be important that the process of implementation of these reforms continues with momentum.

The respondents are pinning their hopes on the direction of reforms that the Finance Minister will indicate in his budget proposals. They expect the government to continue pursuing the broad economic agenda and take tangible steps towards its completion. It was unanimously felt by the respondents that the government should step up action on ease of doing business and especially towards simplification of taxes in the forthcoming Budget. A majority of the respondents also expect the passage of Goods and Services Tax bill.

Further, the participants said that they are also looking forward to labour reforms and incentives for sectors including manufacturing, infrastructure and real estate.

## Top Expectations from Union Budget 2015-16

Stability in taxation	Incentives for exporters
Passage of the GST bill	Boost to Manufacturing
Rationalization of subsidies	Greater focus on Infrastructure
Deduction for CSR* expenses	Labor Reforms

As per the survey results, the proportion of respondents anticipating 'moderately to substantially better' performance over the near term noted a marginal slip at the economy, industry and firm level. Nonetheless, a majority of participants remained optimistic about the future prospects. 83% of the participants in the current survey cited a 'moderately to substantially better' overall economic situation over the next six months, vis-a-vis 84% stating likewise in the last round. The corresponding figure at the industry and firm level was 72% and & 74% respectively.

However, a sustainable turnaround is still elusive for parameters like investments, profits and exports. While the situation is certainly better when compared to last year, the change in quarter on quarter numbers are yet to indicate a firm turnaround.

In the current survey, only 33% of the companies participating in the survey expected 'much higher to higher' profits over the next two quarters. Over half of them did not foresee any change in profit levels.

The perception of the respondents with regard to export prospects also noticed moderation. Only 32% respondents said that they foresee higher exports over the next six months, compared to 47% stating likewise in the last round. The pace of global recovery is yet to pick and demand remains subdued.

\*corporate social responsibility

The outlook with regard to investments still seems weighed down by caution and the projects are yet to take off. In the current survey, about 38% participants expected higher investments over near term; the corresponding number in the previous survey was around the same at 39%. A year ago 24% participants had stated likewise.

In fact, an increase was noted in the proportion of participants indicating both availability and cost of credit to be constraining factors. 34% of the respondents in the present survey indicated that availability of credit was a concern, vis-a-vis 28% stating likewise in the last round. Further, high cost of credit was reported as concern by 56% participants.

The lending rates being charged by the Banks remain high. Though the Reserve Bank had cut the repo rate by 25 bps in January 2015, we are yet to see a transmission of the rate cut through Banks.

Further, weak demand was reported to be a factor bothering the businesses by about 66% respondents. In the previous round, 59% companies had reported weak demand to be a constraining factor.

With GDP numbers indicating an improvement and inflation subsiding there are signs of a turnaround. However at the same time, the domestic capex cycle is yet to see a revival and consumer sentiment remains frail. Both the Government and Reserve Bank will have to assure continuous support going ahead.

### Survey Profile

The survey drew responses from about 150 companies with a turnover ranging from Rs 3 crore to Rs 10,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January to June 2015.

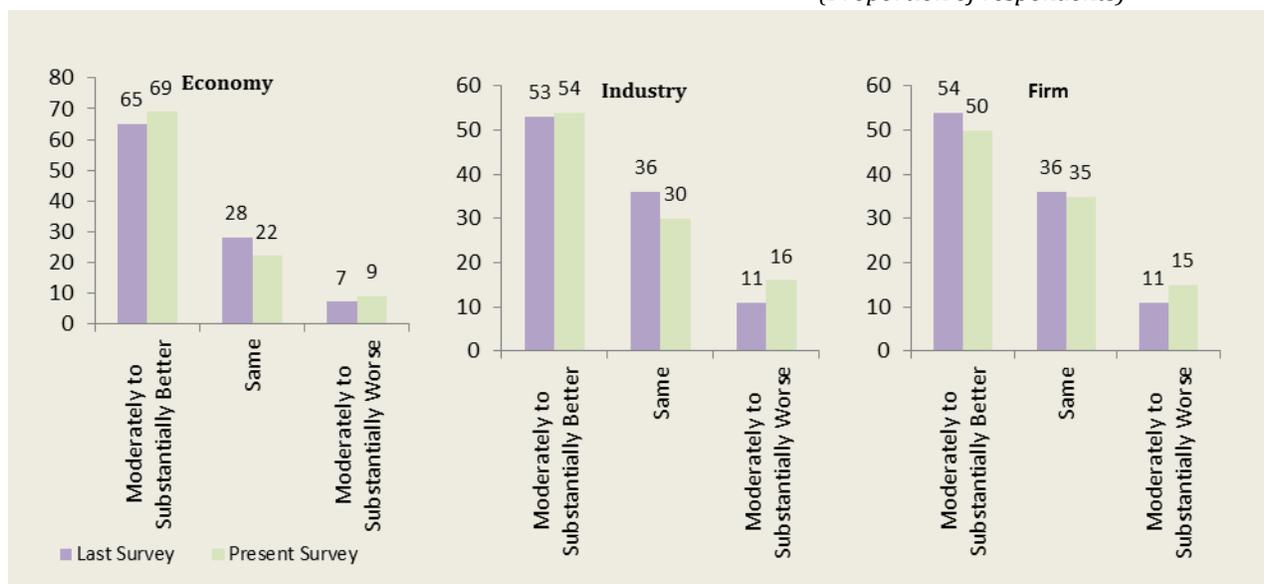
#### Broad Sectoral Coverage

Chemicals	Steel	Paper products
Textiles	Automotive	Electric Machinery
Pharmaceutical	Food Processing	Hospitality

#### Detailed Survey Findings

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

(Proportion of respondents)



#### Current Condition Index

Last Survey

62.9



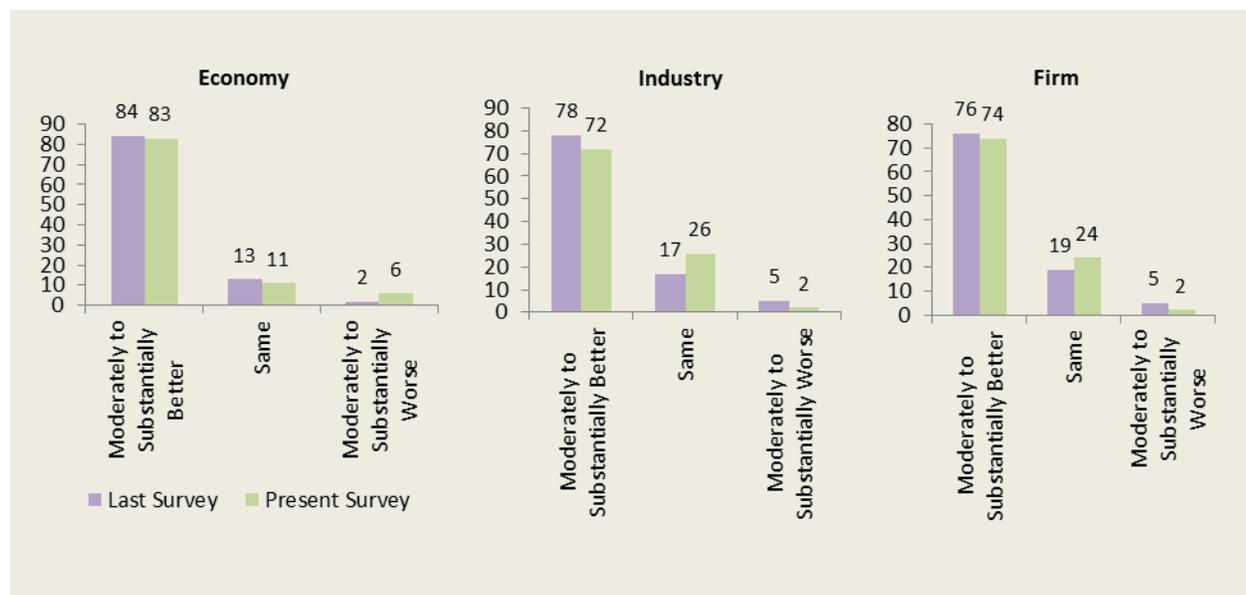
Present Survey

62.5

In the current survey round, a marginal improvement was noted in the proportion of respondents citing a 'moderately to substantially better' performance at the economy and industry level vis-à-vis the results in the last round. About 69% of participants in the present survey reported that the current overall economic situation is better compared to previous two quarters. At the industry level, 54% participants cited likewise. However, at the firm level a decline was noted in the proportion of respondents reporting an improved performance.

**Expected performance over next two quarters**

(Proportion of respondents)



<b>Expectation Index</b>	<b>Last Survey</b>	↑	<b>Present Survey</b>
	74.1		74.5

In the current survey, a marginal decline was reported in the proportion of respondents anticipating an improved performance over the coming two quarters at all the three levels- economy, industry and firm level. However, despite the decline, a majority of the participants remained optimistic about the future prospects. 83% of the participants cited a 'moderately to substantially better' overall economic situation over the next six months. The corresponding figure at the industry and firm level is 72% and 74% respectively.

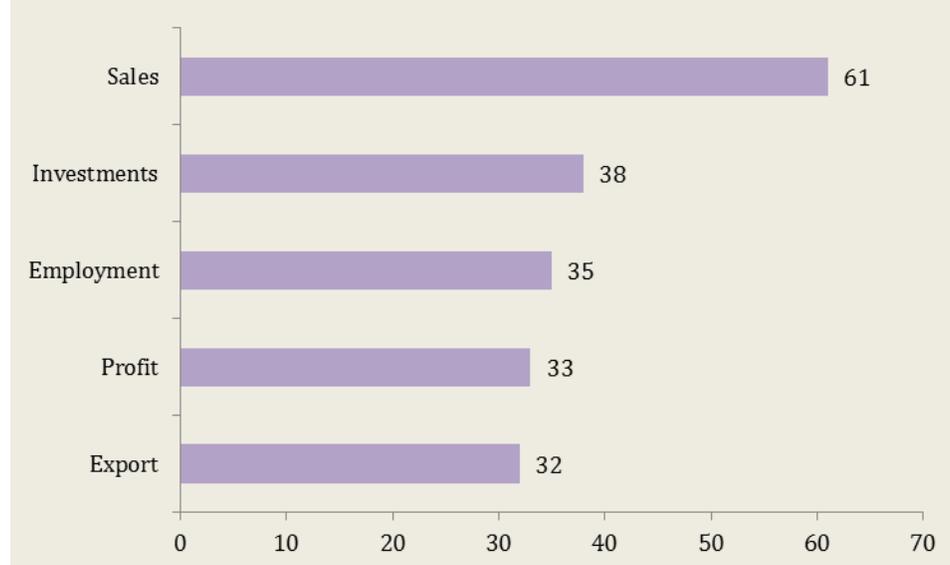
**Overall Confidence level is maintained**

<b>OBCI</b>	<b>Last Survey</b>	↑	<b>Present Survey</b>
	70.4		70.5

The Overall Business Confidence Index (OBCI) stood at 70.5 in the current survey round, which is almost the same as the index value of 70.4 in the previous round. Though a small improvement was noted in the Expectation Index; the value of the Current Condition Index noted a marginal slip. The OBCI indicates a definite improvement over the last year. However, in order to further build on the confidence level the government should step up implementation of the various announcements made.

**Sustainable turnaround still elusive in case of investments, profits and exports**

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



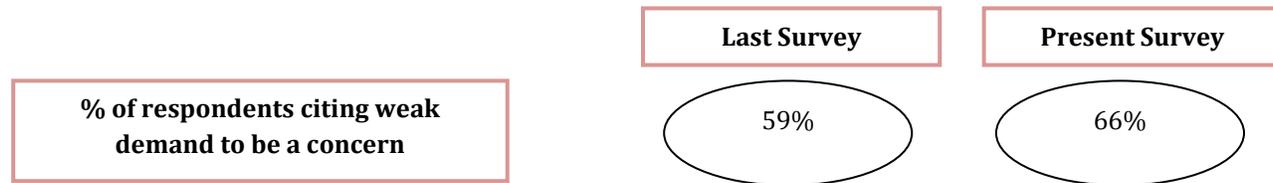
The results pertaining to outlook of some of the key operational parameters have certainly improved when compared to the last year. However the quarter to quarter change still does not reflect firm signs of turnaround.

<b>Investments</b>	<ul style="list-style-type: none"> <li>- Over half of the respondents indicated no change in investments over next two quarters</li> <li>-Sense of apprehension remains among investors.</li> </ul>
<b>Sales</b>	<ul style="list-style-type: none"> <li>- 61% respondents anticipate higher sales in near term, vis-a-vis 69% stating likewise last time</li> <li>-33% foresee no change in sales over next six months</li> </ul>
<b>Profits</b>	<ul style="list-style-type: none"> <li>- 33% respondents expect higher profits in near term, vis-a-vis 37% stating likewise last time</li> <li>-52% foresee no change in profits over next six months</li> </ul>
<b>Exports</b>	<ul style="list-style-type: none"> <li>- 32% respondents expect higher exports over coming two quarters, vis-a-vis 47% stating likewise last time</li> <li>-Export numbers in negative terrain for two consecutive months ending Jan '15</li> <li>-Global recovery remains frail</li> </ul>
<b>Employment</b>	<ul style="list-style-type: none"> <li>- 35% respondents expect more hiring in near term, vis-a-vis 31% stating likewise last time</li> <li>-58% foresee no change in employment over next six months</li> </ul>

**Key constraining factors for businesses**

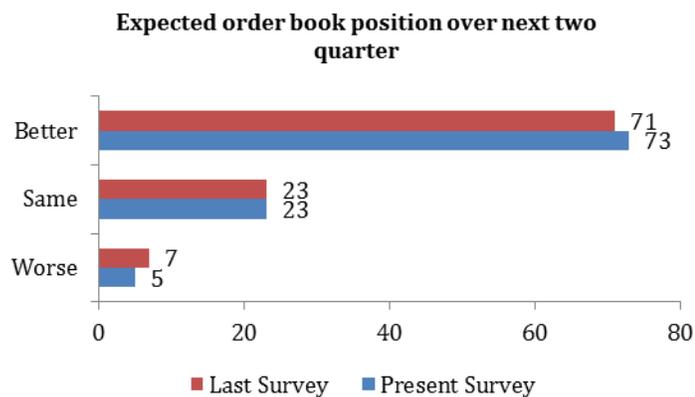
**Weak demand remains a key constraining factor for businesses**

with the proportion of respondents stating likewise rising for the third consecutive quarter



About 66% of companies participating companies reported weak demand to be a persistent concern. The same is also reflected in the capacity utilization rate of the companies, with 51% of respondents pointing a capacity utilization rate of less than 75%.

**Not much change expected in order book position over near term compared to last survey**



**Credit Situation**

**Marginal increase noted in respondents citing availability and cost of credit to be a concern**

% of respondents

Credit	Last Survey	Present Survey
Availability	28	34
Cost	53	56

Rs crore	Working Capital Loan			Term Loan		
	At present	Six months back	One year Back	At present	Six months Back	One year back
Turnover up to 500	12.9	12.9	13.1	13.0	13.1	13.1
Turnover over 500	11.9	11.8	11.9	11.0	11.0	11.0