



**Business  
Confidence  
Survey**

**June 2016**



## Overall Business Confidence Index increases by 7 points

...however caution still underlines the mood of India Inc.

### HIGHLIGHTS

#### Overall Business Confidence Index up by 8 points

The Overall Business Confidence Index stood at 64.3 in the current survey, vis-à-vis 56.7 in the last round.

Present Round  
64.3

The increase comes on the back of an improvement noted in both Current Conditions Index and the Expectations Index.

#### Increase in proportion of respondents citing an improvement in current conditions and expectations

| Net Responses*<br>pertaining to Current Conditions and Expectations |  |          |      |
|---|--|----------|------|
|   | Current conditions vis-à-vis last six months |          |      |
|   | Economy                                      | Industry | Firm |
| Last Survey   | 6  | -5       | 17   |
| Present Survey  | 33   | 19       | 39   |
| Expectations over next six months                                   |  |          |      |
| Last Survey   | 44   | 29       | 43   |
| Present Survey  | 59   | 40       | 51   |

\*Net responses - Difference between proportion of respondents citing an improvement and those citing worsening

The proportion of respondents citing a 'moderately to substantially better' performance in the current conditions 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 were more buoyant about near term prospects.

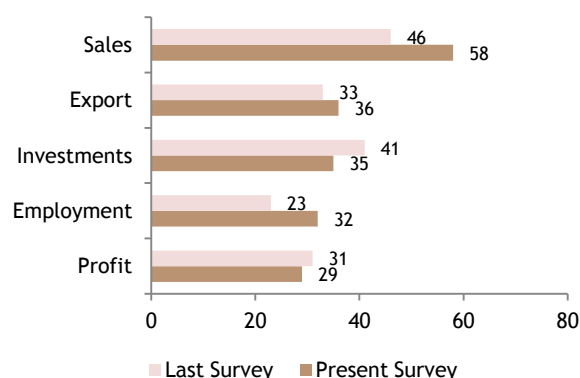
#### Outlook with regard to operational parameters remains subdued

Latest survey results indicate not much improvement in the operational parameters of the companies vis-à-vis the previous quarter.

While the outlook with regard to parameters like sales, exports and employment did note an improvement; the respondents still 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 anticipated no change in investment levels.

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

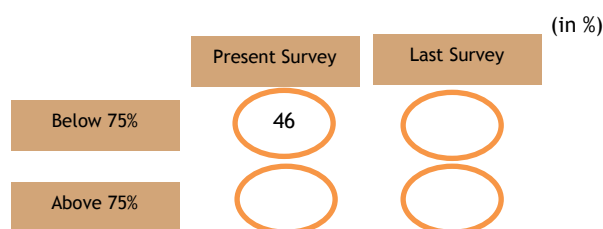


With regard to sales prospects, a larger proportion of respondents anticipated an improvement in the performance.

About 58% of the participating companies said that they foresee higher sales over the coming six months. In the previous survey, 46% companies had reported the same. The expected 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%.

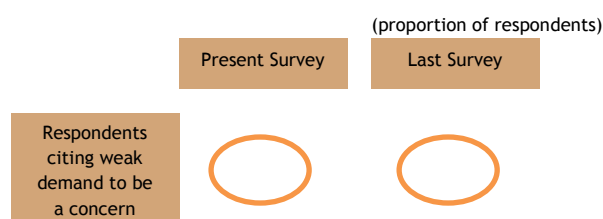
**Capacity Utilization: Increase in proportion of respondents citing an improvement**



**Demand a concern for majority of respondents**

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 economic recovery is still fragile and growth remains scattered. Further, two consecutive years of drought impacted the domestic demand adversely, especially in the rural segment.

In the current round about 64% of the participants indicated demand situation to be worrisome.



The respondents also indicated that they do foresee an improvement going ahead.

**Demand likely to pick up over coming six months (April - September 2016)**

|                        | (Proportion of respondents) |             |                 |             |
|------------------------|-----------------------------|-------------|-----------------|-------------|
|                        | Domestic Demand             |             | External Demand |             |
|                        | Present Survey              | Last Survey | Present Survey  | Last Survey |
| Decline less than 10%  | 8                           | 13          | 6               | 15          |
| Decline more than 10%  | 0                           | 10          | 6               | 4           |
| Same                   | 18                          | 29          | 29              | 38          |
| Increase less than 10% | 59                          | 35          | 45              | 27          |
| Increase more than 10% | 15                          | 13          | 13              | 15          |

**Credit situation has improved**

With respect to 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).

**Marginal Improvement in proportion of respondents citing higher exports in near term**

An 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. External situation will continue to pose a challenge over the near term and would take some more time to strengthen.

**Employment outlook indicates some recovery**

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%.

Nonetheless, still a majority 61% of the participants did not foresee any fresh hiring over the near term.

## Survey Profile

The survey drew responses from about 120 companies with a turnover ranging from Rs 3 crore to Rs 65,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period April to September 2016.

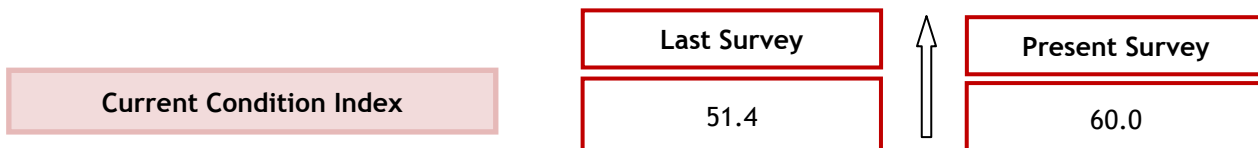
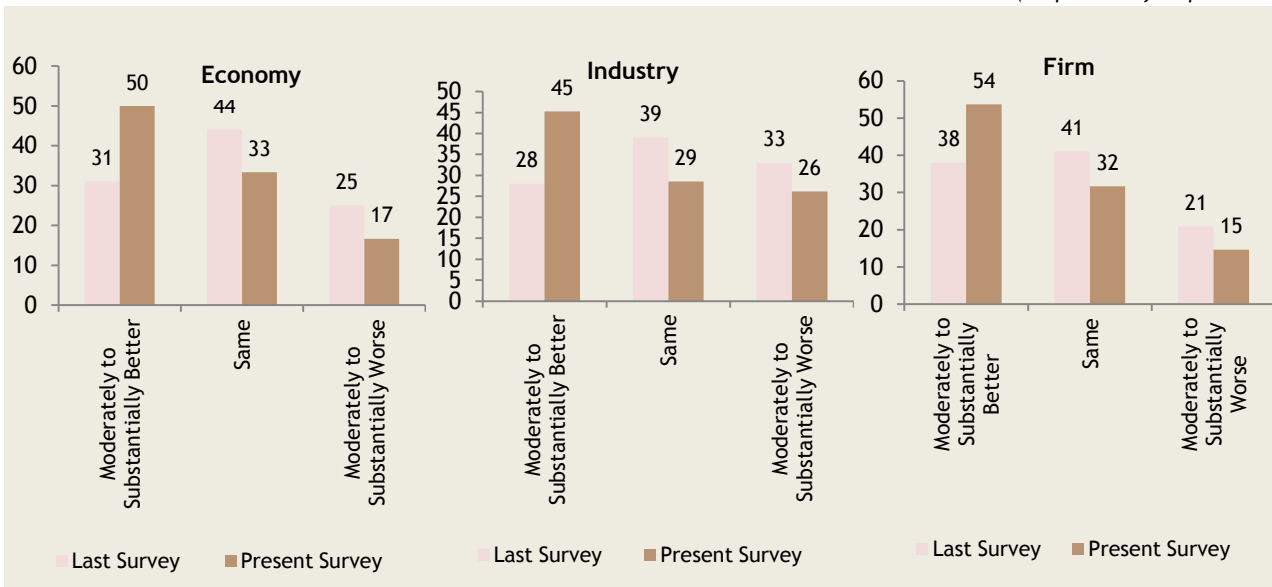
### Broad Sectoral Coverage

|                        |                 |                                |
|------------------------|-----------------|--------------------------------|
| Chemicals              | Steel           | Paper products                 |
| Textiles               | Automotive      | Transportation                 |
| Pharmaceutical         | Food Processing | Real Estate                    |
| Agricultural Machinery | FMCG            | Electronics/Electric Machinery |

## Detailed Survey Findings

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

(Proportion of respondents)

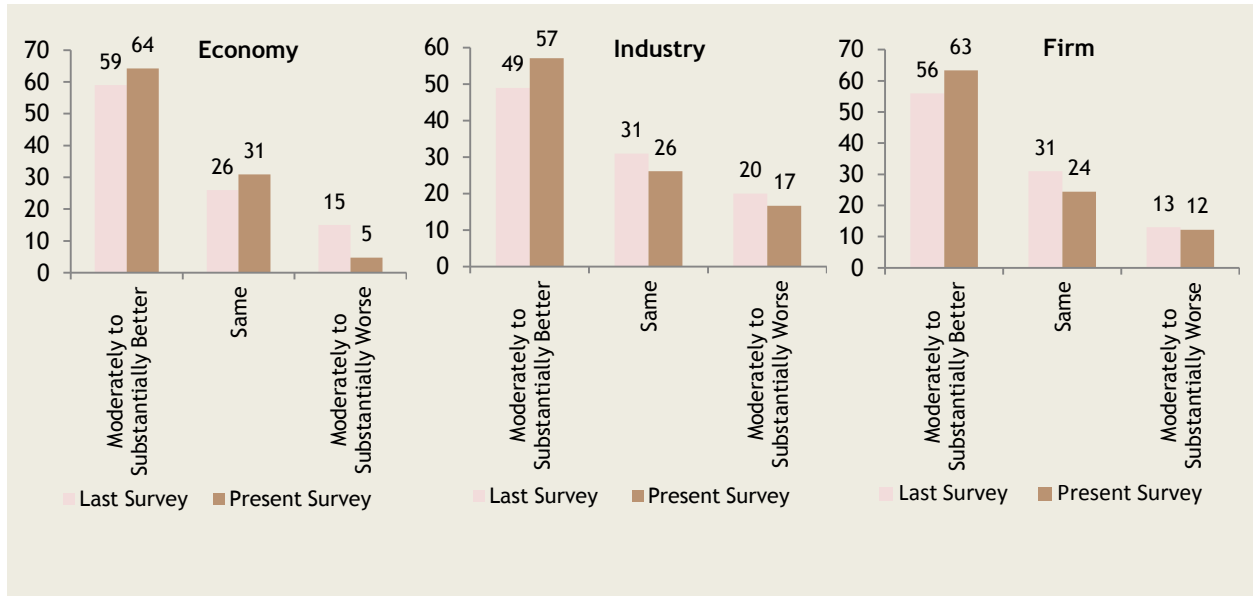


In the latest survey round, the participants reported an improvement in the current conditions vis-a-vis last six months at all the three levels -economy, industry and firm. About 50% of the respondents in the present survey reported that the current economic conditions are 'moderately to substantially better' compared to the previous six months, vis-à-vis 31% stating the same in the last round. Likewise, the corresponding number at the industry and firm level was 45% and 54% respectively. Consequently, a

decline was noted in the proportion of respondents reporting no change or worsening of performance vis-à-vis the past two quarters.

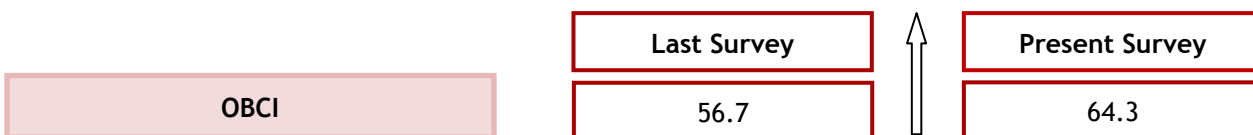
**Expected performance over next two quarters**

(Proportion of respondents)



The results of the latest survey round reported an improvement in the optimism level of the respondents with regard to near term performance as well. The proportion of respondents citing a ‘moderately to substantially better’ performance over the next two quarters noted an increase at all the three levels - economy, industry and firm level. This marks a departure from moderation in the outlook noted in the previous two survey rounds. 64% of the participants said that they foresee a better performance at the economy level in near term. The corresponding figure in the previous round was 59%. Further, 57% of the respondents at the industry level and 63% of the respondents at the firm level were hopeful of an improvement going ahead.

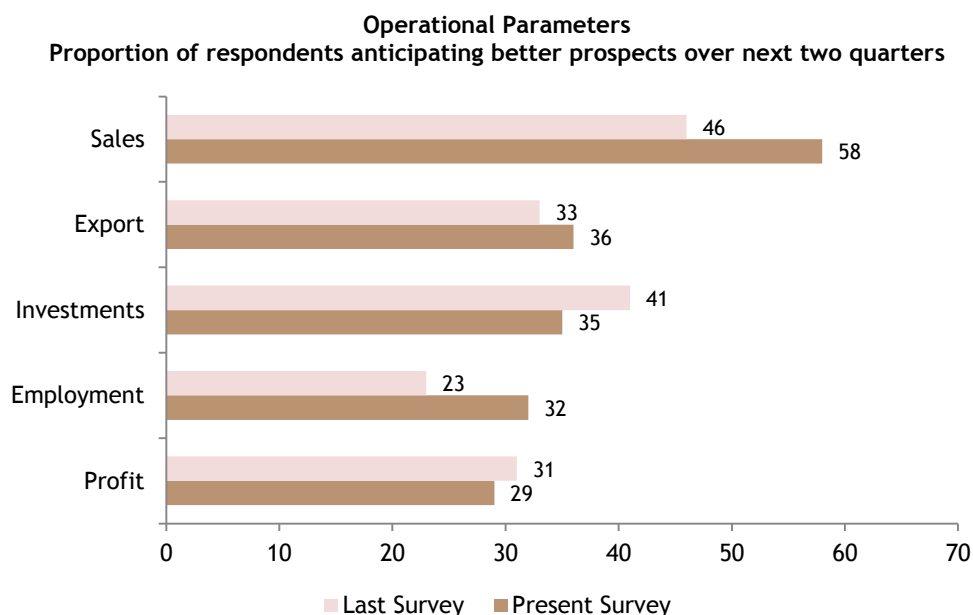
**Overall Confidence level notes an improvement**



Overall Business Confidence Index (OBCI) stood at 64.3, about 7 notches higher than the corresponding index value in the previous round. This improvement in index value comes on back of a better performance in both Current Conditions Index and Expectations Index. This is a welcome breather after

two consecutive quarters of decline in the index value. Global economy has been fragile and this has had an impact on the domestic economy as well. However, Government's commitment on reform front over the past two years has been commendable and has supported recovery in the domestic economy. Going ahead, a greater momentum on implementation of reforms would be critical and will aid further improvement in business confidence.

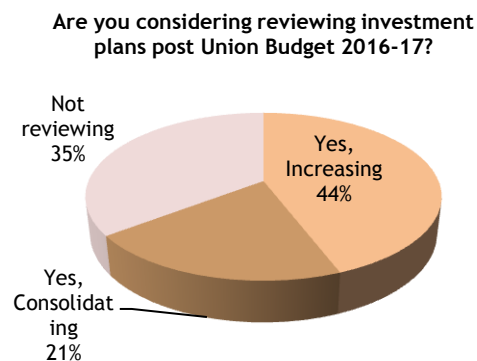
### Improvement in key operational parameters like investments, profits remains elusive



Results pertaining to operational parameters indicate not much change in the situation vis-à-vis the previous survey round. While the outlook with regard to parameters like sales, exports and employment did note an improvement; the respondents still didn't seem sanguine 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 anticipated no change in investment levels.

Further, the respondents were also asked to indicate if they are considering reviewing their investment plans post Union Budget 2016-17. The respondents seemed divided on this. While about 44% of the respondents said that they are looking at increasing their investments post Union Budget 2016-17; about 21% said they would consolidate existing investments. Further, 35% said they are not reviewing their investment plans.



Also, given the slew of measures undertaken by the government in 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 rolling reported activity mostly in infrastructure projects including roads and highways, railways, renewable energy and defence.

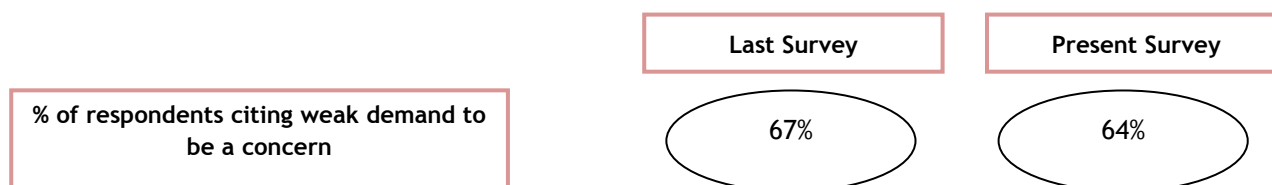
With regard to sales prospects, respondents anticipated an improvement in the performance. About 58% of the participating companies said that they foresee higher sales over the coming six months. In the previous survey, 48% companies had reported the same. The expected pick up in sales despite investment intentions remaining subdued indicates companies are 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%.

Additionally, an improvement was also foreseen in export and employment outlook. 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. The external situation will continue to pose a challenge over the near term and would take some more time to strengthen.

**Key constraining factors for businesses**

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



Weak demand has been a persistent concern on account of both domestic (two years of drought) and global factors. About 64% of the companies participating in the current survey reported weak demand to be constraining factor. This was marginally lower than 67% companies stating likewise in the previous

round. While global recovery remains gradual, the forecast of a normal monsoon is expected to bring in some respite on the domestic front. The respondents also indicated that they foresee an uptick in demand going ahead.

#### Demand likely to pick up over coming six months (April - September 2016)

(proportion of respondents)

|                        | Domestic Demand |             | External Demand |             |
|------------------------|-----------------|-------------|-----------------|-------------|
|                        | Present Survey  | Last Survey | Present Survey  | Last Survey |
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#### Credit Situation

Credit 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. With the recent reduction in small savings interest rate as well as the introduction of the marginal cost of funds based lending rate (MCLR), the transmission through banks is expected to see some improvement.

Availability of credit was reported to be a concern by only 19% of the respondents, while cost of credit was still a bothering factor for 33% respondents

|              | % of respondents |                |
|--------------|------------------|----------------|
| Credit       | Last Survey      | Present Survey |
| Availability | 24               | 19             |
| Cost         | 50               | 33             |



(in %)

|                          | 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 crore | 11.2                 | 11.5            | 11.9          | 12.4       | 12.7            | 12.8          |
| Turnover over 500 crore  | 12.0                 | 11.0            | 11.2          | 10.9       | 11.1            | 11.2          |

### Threat of Imports

... marginal increase in proportion of respondents citing increasing imports to be bothersome

% of respondents

| Threat of Imports | Last Survey | Present Survey |
|-------------------|-------------|----------------|
| Yes               | 35          | 38             |
| No                | 65          | 62             |

Respondents reporting imports to be a threat belonged to the following sectors -

- Steel and steel products
- Food processing
- Agricultural Machinery
- Auto components
- Jute products

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