



**Business  
Confidence  
Survey**

**October 2016**



**HIGHLIGHTS**

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

According to FICCI’s latest survey results, the Overall Business Confidence Index (OBCI) rose to a six quarter high. The index value was reported at 67.3 in the current survey, vis-à-vis 62.8 in the last round.

Index	Present Survey	Last Survey
Current Condition	67.3	62.8
Expectation	67.3	62.8
OBC	67.3	62.8

**Respondents cite an improvement in current conditions as well as expectations**

**Net Responses\*  
pertaining to Current Conditions and Expectations**

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

	Economy	Industry	Firm
<b>Last Survey</b>	29	20	37
<b>Present Survey</b>	48	48	53

**Expectations over next six months**

	Economy	Industry	Firm
<b>Last Survey</b>	58	39	51
<b>Present Survey</b>	70	48	58

\*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.

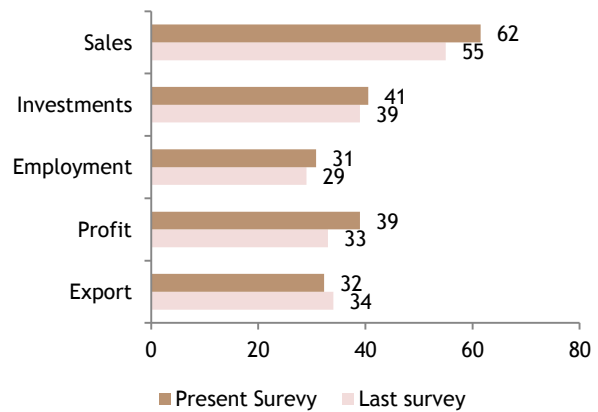
The participants were optimistic about near term prospects as well.

**The outlook of respondents with regard to operational parameters indicates mixed signs - however respondents optimistic about Sales & Profits**

Results pertaining to operational parameters indicate mixed signs. In the present round, participating companies seemed upbeat about near term sales and profits when compared to the previous survey results; however their outlook on other parameters such as investments, employment and exports was by and large unchanged.

**With regard to sales prospects**, a majority of respondents anticipated an improvement in performance over the next two quarters. About 62% participating companies said that they foresee higher sales over the coming six months. In the previous survey, 55% companies had reported the same. Higher disposable income in hands of consumers along with the onset of festive season is expected to drive sales.

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



**On the investment front**, a marginal increase was noted in the proportion of respondents expecting an uptick in investments. 41% participants anticipated higher investments over the next six months, which was 2 percent points higher than the corresponding number in the previous round.

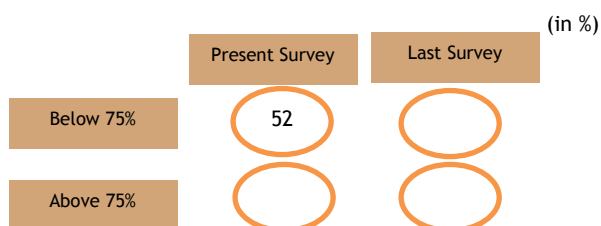
In light of the measures undertaken by Government to kick-start investments, the participants were also asked to indicate if they have witnessed any projects taking off in and around their area of operation.

About 46% of the participants in the survey said that they have noted an improvement in investment activity in and around their area of operation. The participants indicated projects being implemented in sectors including Roads & Highways, Civil Aviation, Power, Construction, Auto & Auto Ancillary.

The *external sector performance has remained muted* and exports have been in the negative terrain since December 2014 (with only exception being June 2016). The latest assessments by IMF and World Bank point towards persistence of headwinds and global economic situation is likely to remain challenging over the near term. *This somberness was also reflected in the outlook of participants with regard to exports.* In the current survey, 32% of respondents anticipated exports to go up over the next two quarters. In the previous round the corresponding number was 34%. In addition, 45% respondents expected no change in the export volumes, while 23% said that they foresee a decline.

Further, *with regard to hiring prospects*, 31% 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 29%. Nonetheless, still a majority 56% of the participants did not foresee any fresh hiring over near term.

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

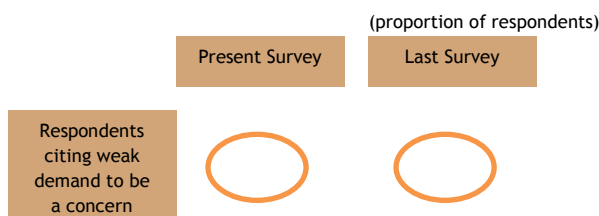


In the present survey, 48% of the participating companies indicated that they are operating at a capacity utilization rate of over 75%. In the previous survey, 44% respondents had stated the same. However, it needs to be noted that more than 50% of the respondents are still operating at below 75% capacity.

**Demand pulse gains traction**

Weak demand has been a primary concern for businesses. However, there are signs that demand pulse is gradually gaining strength. Good monsoons

and the award of seventh pay commission are expected to further aid consumption. In the current round, 46% of the participants reported weak demand to be an impediment for their businesses. This is lower than 59% respondents stating likewise in the previous round. The proportion of respondents indicating demand to be a constraining factor has noted a decline for the third consecutive quarter.



The respondents also indicated that they do foresee a pickup in domestic demand over the period October, 2016 to March, 2017.

**Demand situation over coming six months**

	(Proportion of respondents)			
	Domestic Demand		External Demand	
	Present Survey	Last Survey	Present Survey	Last Survey
Decline less than 10%	11	11	16	12
Decline more than 10%	3	4	9	6
Same	8	18	28	32
Increase less than 10%	62	52	31	34
Increase more than 10%	16	15	16	15

**Increase in the proportion of respondents citing availability and cost of credit to be a concern**

With respect to credit, an increase was noted in the proportion of respondents citing availability and cost of credit to be a constraining factor. In the present round 54% of participants reported cost of credit to be a bothering factor. The corresponding number in the previous round was 46%.

**The survey results show on an average, companies are paying an interest rate of about 12.0% on working capital and term loans.**

High interest cost has been one of the major areas of worry for the industry. It remains critical that the cost of capital is made competitive to propel

investments. The Reserve Bank of India has cut the repo rate by 175 bps since January last year.

The Government had also announced a cut in the small saving rates earlier this year. It remains critical that Banks take cognizance of the situation and

transmit these cuts by lowering the lending rates. ***The survey results show on an average, the companies are paying an interest rate of about 12.0% on working capital and term loans.***

### Survey Profile

The survey drew responses from about 181 companies with a turnover ranging from Rs 2 crore to Rs 80,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period October, 2016 to March, 2017.

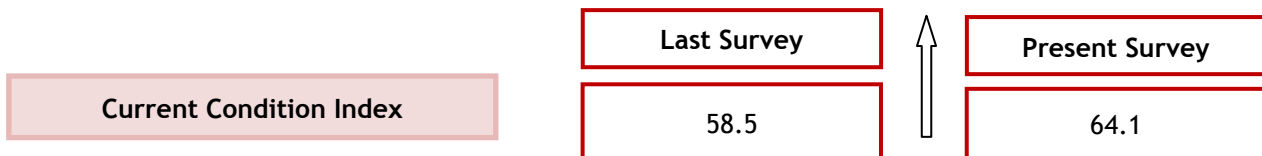
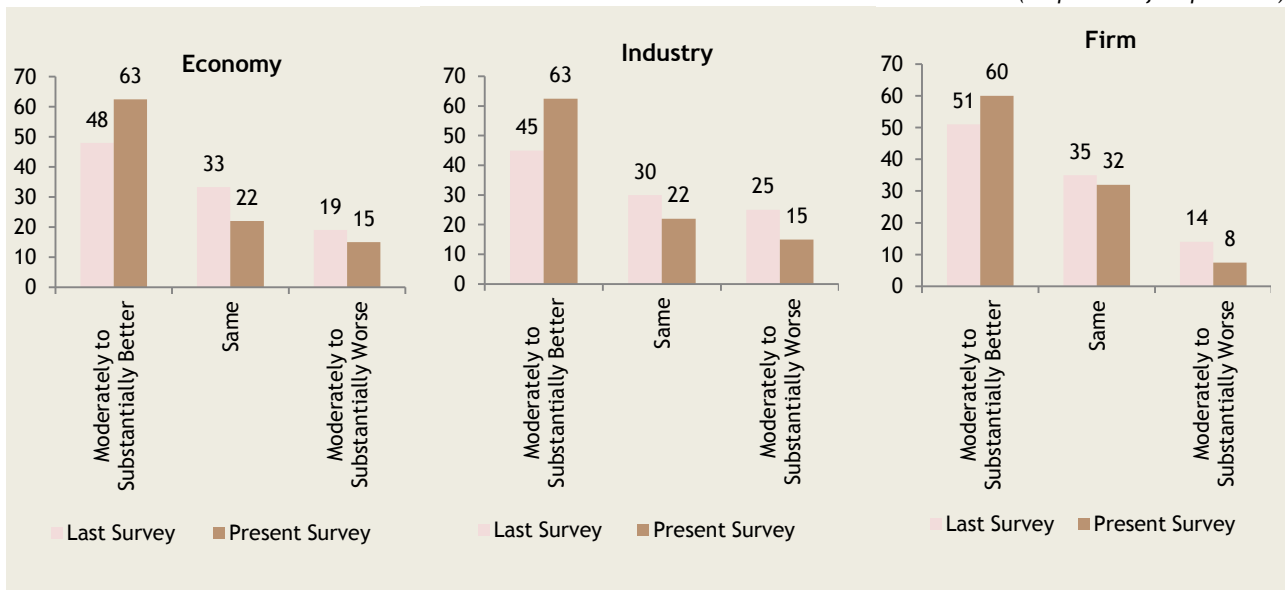
#### Broad Sectoral Coverage

Oil & Gas	Steel	Paper products
Textiles	Automotive	Logistics
Renewable Energy	Food Processing	Construction
Agricultural Machinery	FMCG	Electronics/Electric Machinery

### Detailed Survey Findings

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

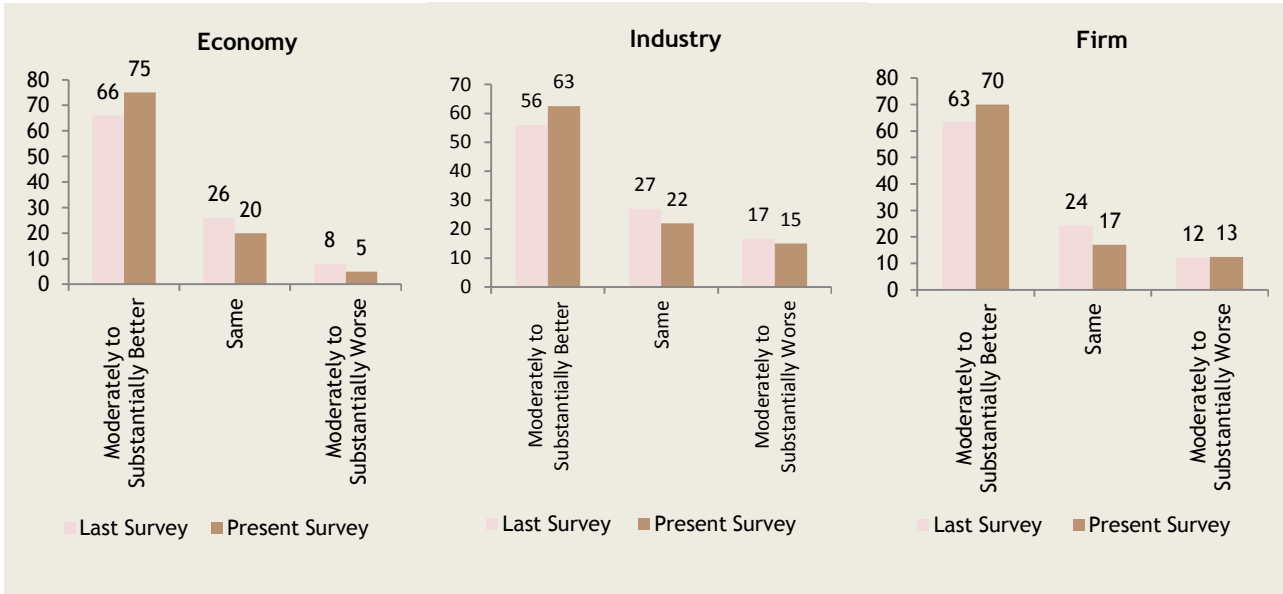
(Proportion of respondents)



In the latest survey round, the participants reported an improvement in the current conditions vis-à-vis last two quarters at all the three levels - economy, industry and firm. About 63% of the respondents in the present survey reported the current economic conditions as ‘moderately to substantially better’ compared to the previous six months, vis-à-vis 48% stating the same in the last round. Likewise, the corresponding number at the industry and firm level was 63% and 60% respectively. Consequently, a decline was noted in the proportion of respondents reporting no change or worsening of performance vis-à-vis past six months at all the three levels.

**Expected performance over next two quarters**

(Proportion of respondents)



According to results of the latest survey round, the participants were sanguine about the 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. 75% 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 66%. Further, 63% of the respondents at the industry level and 70% of the respondents at the firm level were hopeful of an improvement going ahead.

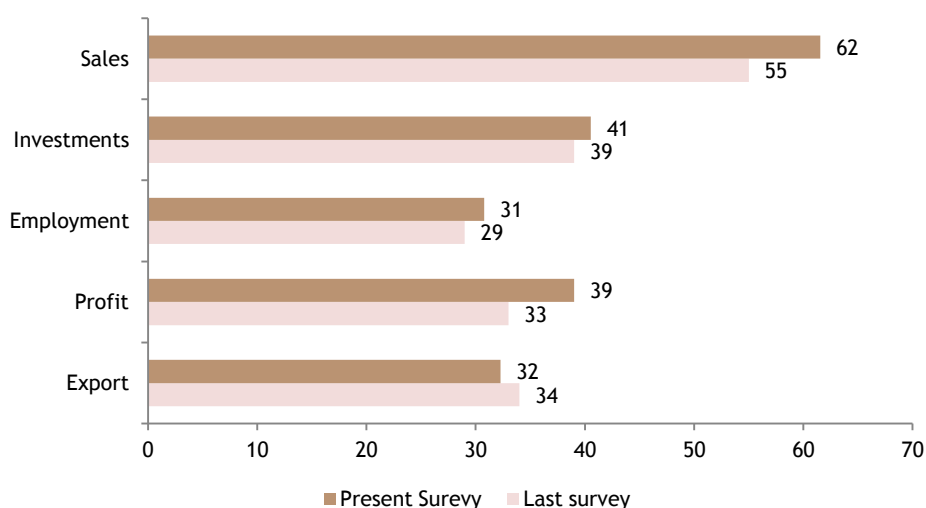
Overall Business Confidence Index at six quarter high

	Last Survey	↑	Present Survey
OBCI	62.8		67.3

Overall Business Confidence Index (OBCI) stood at 67.3, about 4 notches higher than the corresponding index value in the previous round. Both, Current Conditions Index as well as Expectations Index noted an improvement, thereby pushing up the Overall Business Confidence Index. While the global economy remains fragile, the domestic economy is holding steady. The Government is pursuing a comprehensive reform agenda to support recovery in the domestic economy. It remains critical that the Government continues the momentum on implementation to ensure a sustainable turnaround.

Outlook on operational parameters

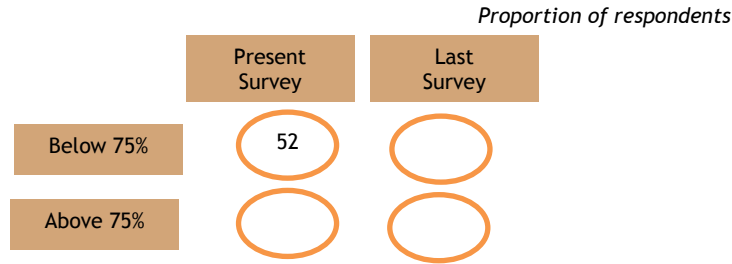
Operational Parameters  
Proportion of respondents anticipating better prospects over next two quarters



Results pertaining to operational parameters indicated mixed signs. In the present survey, the participating companies seemed more upbeat (vis-à-vis the previous round) about near term sales prospects and profits; however their outlook on other parameters such as investments, employment and exports was by and large unchanged.

**With regard to sales prospects**, about 62% respondents said that they expect higher sales over the next six months vis-à-vis 55% stating likewise in the previous round. Higher disposable income in hands of consumers along with the onset of festive season is expected to further drive sales.

Further in the present survey, 48% of the participating companies indicated that they are operating at a capacity utilization rate of over 75%. In the previous survey, 44% respondents had stated the same. However, it needs to be noted that more than 50% of the respondents are still operating at below 75% capacity.

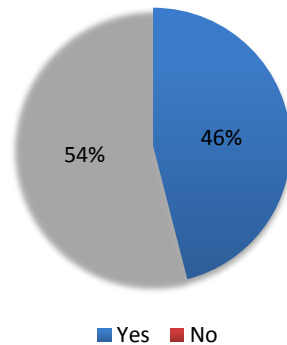


**On the investment front**, a marginal increase was noted in the proportion of respondents expecting an uptick in investments. 41% participants anticipated higher investments over the next six months, which was 2 percent points higher than the corresponding number in the previous round.

In light of the measures undertaken by Government to kick-start investments, the participants were asked to indicate if they have witnessed any projects taking off in and around their area of operation. About 46% of the companies participating in the survey said that they have noted an improvement in investment activity in and around their area of operation. The participants indicated projects being implemented in sectors including Roads & Highways, Civil Aviation, Power, Construction, Auto & Auto Ancillary.

*Proportion of respondents*

**Given the various reform measures undertaken by Government, has there been a change in investment activity in and around your area of operation?**



**With regard to profits**, about 39% participants anticipated an increase in profits over near term, vis-à-vis 33% stating likewise in the previous round.

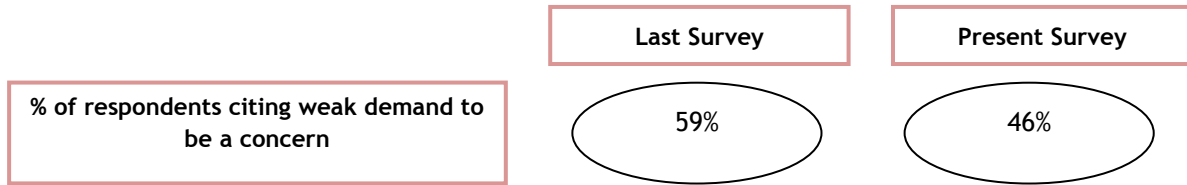
**On employment generation**, the outlook was slightly better in the present survey with 31% respondents anticipating an increase in hiring, vis-à-vis 29% stating likewise in the previous round. However, a majority 56% of the participants did not foresee any fresh hiring over the near term.

**The respondents were uncertain about export prospects.** About, 32% respondents said that they foresee higher exports over the next two quarters. The corresponding number in the previous round was 34%. The latest assessments by IMF and World Bank point towards persistence of headwinds and global economic situation is expected to remain challenging over the near term.



**Key constraining factors for businesses**

**Proportion of respondents citing demand as a concern notes a fall**

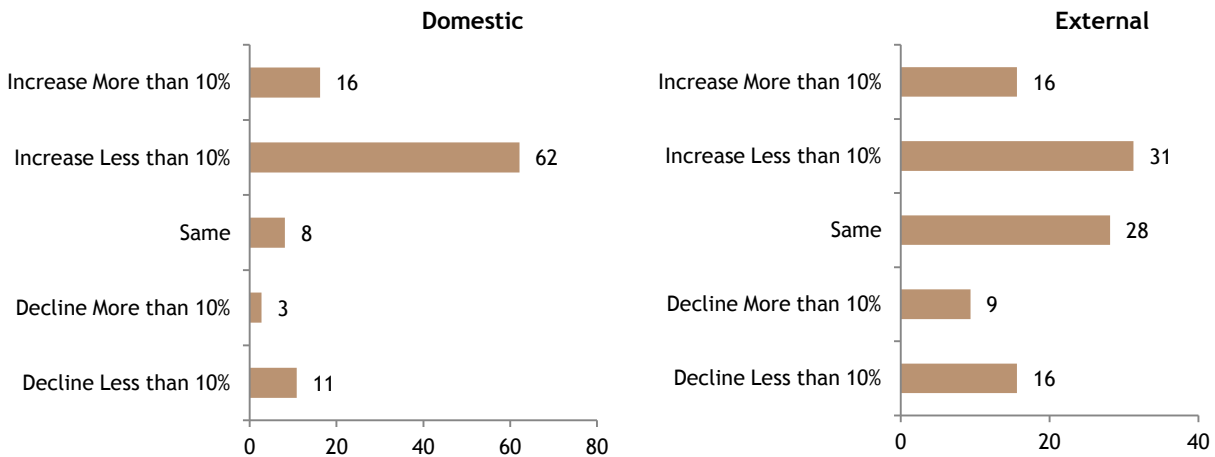


Weak demand, domestic as well as external, has been a concern for quite some time. The situation was seen improving in the current survey. About 46% respondents stated demand to be an impediment for their businesses in the present round. This was lower than 59% companies reporting likewise in the previous round. The proportion of respondents indicating demand to be a constraining factor has noted a decline for the third consecutive quarter.

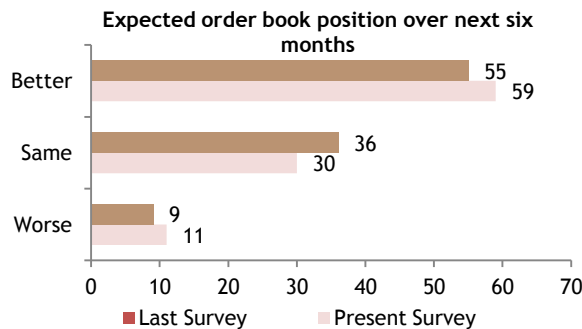
The respondents indicated that they do foresee a pickup in domestic demand over the period October, 2016 to March, 2017.

**Demand situation over coming six months (October - March 2016)**

(Proportion of respondents)



Further, the proportion of respondents expecting an improvement in the order book position over the next six months also indicated an improvement. About 59% of the respondents anticipate a better order book position over the coming two quarters, vis-à-vis 55% stating likewise in previous round.



**Credit Situation**

An increase was noted in the proportion of respondents citing availability and cost of credit as worrying factors.

Availability of credit was reported to be a concern by 29% of the respondents, while 54% respondents reporting cost of credit a bothering factor

Credit	% of respondents	
	Last Survey	Present Survey
Availability	24	29
Cost	46	54

The Reserve Bank of India has cut the repo rate six times (a total of 175 bps) since January 2015. Despite various measures taken by the Government and RBI (such as reducing interest rates on small saving schemes and introduction of MCLR based lending rates), transmission of the cuts into lower lending rates by banks has been sluggish. It remains critical that the cost of capital is made competitive to propel investments. ***The survey results show on an average, the companies are paying an interest rate of about 12.0% on working capital and term loans.***

**Threat of Imports**

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

% of respondents

Threat of Imports	Last Survey	Present Survey
Yes	36	34
No	64	66

Respondents reported a threat of imports from the following countries -

- China
- Indonesia
- Bangladesh
- Malaysia
- Ukraine
- Iran

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