



Business Confidence Survey

June 2018

Business Confidence Survey

June 2018

Summary

Survey reports slight moderation in Confidence Level... Rising raw materials cost a major impediment... Cost of credit seen emerging as a concern for higher number of respondents

The latest round of FICCI's Business Confidence Survey reveals a slight dip in optimism among members of India Inc. **The Overall Business Confidence Index stood at 71.0 in the current round vis-à-vis an eleven quarter high value of 71.6 reported in the previous round.** While some improvement was noted in the current conditions, a moderation in positive expectations about the near term caused the slip in the overall index value.

The Current Conditions Index stood at 68.9 in the present survey, vis-à-vis the value of 67.0 in the last round.

The Expectations Index, on the other hand, moderated to 72.1 in the current survey as compared to 73.9 in the last round.

Operational parameters witnessed mixed results - while near term sales and employment outlook improved, prospects for profits and exports were slightly subdued in the present survey vis-à-vis the last round.

In the present round, 65% participants expected higher sales vis-à-vis 63% stating the same in the last survey. The demand situation is gradually improving and the economy is on recovery path. The growth numbers for commercial vehicles, three and two wheelers sales have been encouraging. Also, the quarterly results of FMCG companies have reported a pickup indicating signs of revival in both rural as well as urban demand.

However, despite improving numbers for some of the lead indicators, a marginal increase was noted in the proportion of respondents citing demand as a worrisome factor. Around 51% respondents cited weak demand as a constraint in the present round. The corresponding number in the previous round was 48%. Even though there are indications of domestic demand picking up, possibility of strain on external sector demand remains on anvil.

Furthermore, **participating companies indicated increased apprehension about the rise in raw material costs.** In the present round, **around 70% respondents stated rising cost of raw materials to be a constraining factor.** The corresponding number in the previous round was 66%.

The rising oil prices are once again posing a high risk to India's economic growth trajectory. Additionally, the weakening Rupee is likely to add to the cost of production and will impact the earning prospects of companies. In fact, **current survey results reported a slight moderation in profit outlook of the companies as well.**

Overall Business Confidence Index drops marginally to 71.0

Rising raw material cost poses a major challenge

Near term sales and employment outlook improve

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Moreover, the increase in tariffs of certain items by major economies is also adding to the pressure on global prices leading to a rise in input costs.

The outlook on fresh investments remained muted. **About 38% participants said that they foresee higher investments over the coming two quarters vis-à-vis 45% stating likewise in the last survey.**

While the latest numbers for gross fixed capital formation did report a pick up in economic activity, the private sector continues to be circumspect on this matter. The corporates remain leveraged and with RBI announcing the new set of NPA norms the lending capacity of public sector banks has been restrained further. Moreover, volatility in demand conditions, cheaper imports and frequent changes in policies are some of the other challenges that companies have been facing. These have also had an offsetting impact on investment decisions of the respondents.

Given that investments have been slow to pick up, respondents were asked to share their experience on the current regulatory and operational environment for their businesses and suggest ways to further enhance ease of doing business in India.

Interestingly, a majority of the respondents (64%) were satisfied with the current regulatory and operational environment. Even though the respondents seemed satisfied with the regulatory environment, it **was suggested that a comprehensive review must be carried out to assess the impact of the reform measures already undertaken. They called for minimal government interference in doing business and suggested a 100% online system.**

The survey results also indicated a significant increase in the proportion of respondents citing cost of credit as a concern. In the present round, **43% respondents cited cost of credit as a concern vis-à-vis 30% stating likewise in the previous round.**

Further, the proportion of respondents stating availability of credit as a constraining factor noted an increase as well. **30% companies reported availability of credit as a major concern as compared to 24% stating the same in the previous round.**

These are worrying numbers as rising inputs prices and weakening Rupee has increased the risk of monetary policy turning hawkish and this can have a further bearing on the growth of private investments. There is need to move swiftly taking cognizance with the evolving situation.

Respondents foresee lower investments over the next six months....

Increase in the proportion of respondents citing cost of credit as a concern....

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The outlook on employment, however, has noted an improvement for the second consecutive quarter in the present survey. About 33% of the participating companies expect a rise in hiring activity over coming two quarters as compared to 30% respondents citing similar intentions in the previous round.

The respondents were also asked to share their opinion on certain contemporary issues including growing protectionism, introduction of e-way bill and public procurement order.

Impact of increasing protectionism on India

- Most participants agreed that economic growth in India is majorly dependent on domestic factors and that a protectionist stance by others will have a limited impact on our economy.
- A majority of respondents held the view that this is a good opportunity for India to gain a greater market share and that the government should play a more proactive role in furthering its endeavour of expanding India's export base – both in terms of products and destinations.
- Nonetheless, the participating companies felt that even though there are opportunities that can arise for India, there are pertinent risks that can impact our economy. A possibility of a full blown trade war can change the global dynamics and is likely to weaken investment sentiment causing an adverse impact for India.

Views on E-way Bill

- Almost all participating companies agreed that the introduction of e-way bill will eventually improve efficiency. Movement of goods across states will be smoother resulting in supply chain efficiencies as the transit time is expected to reduce significantly.
- Participants said government must ensure a robust IT infrastructure to overcome frequent technical glitches. There is a need for efficient troubleshooting mechanism to avoid disruptions.

Experience on Public Procurement (Preference to Make In India) Order

- A majority (60%) of the participants responding to this question said that the new e-tendering process is a better and a simplified version than the earlier one. It is transparent and involves lesser interference of government departments.
- However, about 40% respondents felt that the tender process is still tedious and needs further simplification.
- To support Make In India and ease out the e-tendering procedure, it was suggested that government digi-locker for all documents is implemented.
- Lastly, it was felt that the Government e-Marketplace (GeM) portal must be made more customer friendly.

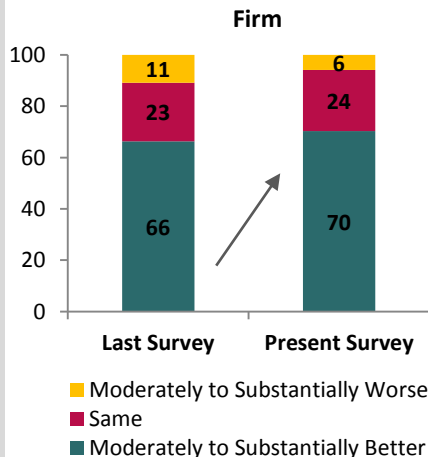
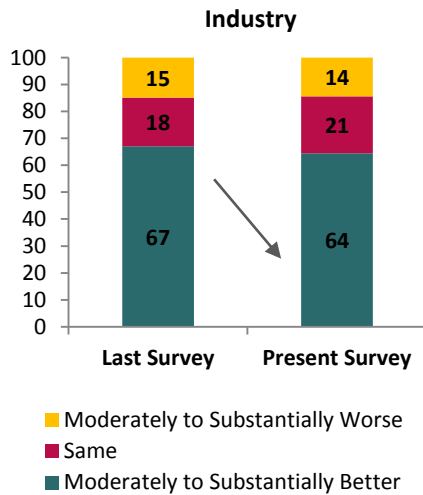
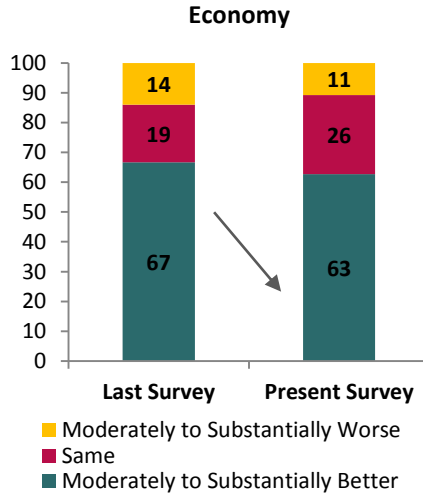
Improvement cited in
employment
outlook....

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Current conditions vis-à-vis last six months

Assessment of respondents with regard to current conditions vis-à-vis last six months report improvement at firm level



FICCI's latest Business Confidence Survey reports a slight moderation in the assessment of respondents with regard to current conditions at the economy and industry level compared to last six months. Nonetheless, some improvement in current conditions was reported at the firm level.

The proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined to 63% in the present survey vis-à-vis 67% respondents stating likewise in the previous round.

About 64% respondents at industry level reported improved current conditions vis-à-vis last six months as compared to 67% participants reporting likewise in the previous round.

At the firm level, 70% respondents cited 'moderately to substantially better performance' vis-à-vis last two quarters. This was a slight improvement over the previous quarter survey results.

Moreover, an increase was noted in the proportion of respondents reporting no change in the current conditions vis-à-vis last six months at all three levels – economy, industry and firm; the percentage of participants reporting worsening, on the other hand, noted a decline.

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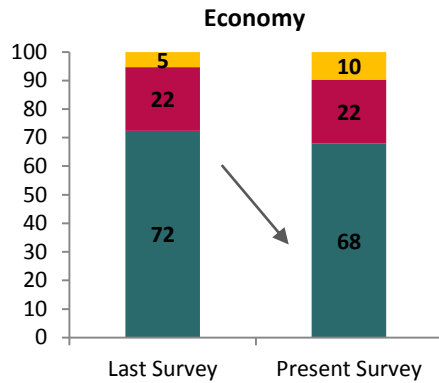
Expected conditions over next six months

Optimism of respondents about near term prospects moderated in the latest survey compared to previous round.

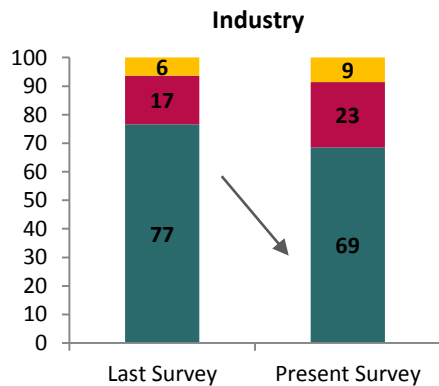
Survey results reported moderation in outlook of participants at the economy and industry level. However at the firm level, the respondents remained sanguine about near term prospects.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over the next six months moderated to 68% in the current survey compared to 72% participants reporting likewise in the previous round.

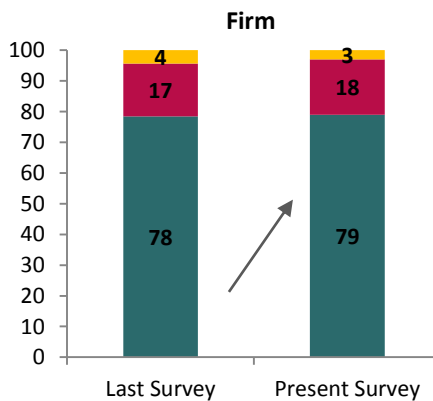
On the other hand, 69% and 79% of the surveyed companies reported that they expect an improved performance over the coming six months at industry and firm level. The corresponding number in the previous round was 77% and 78% respectively.



- Moderately to Substantially Worse
- Same
- Moderately to Substantially Better



- Moderately to Substantially Worse
- Same
- Moderately to Substantially Better



- Moderately to Substantially Worse
- Same
- Moderately to Substantially Better

Respondents expect improvement in firm level conditions over the period April - September 2018....

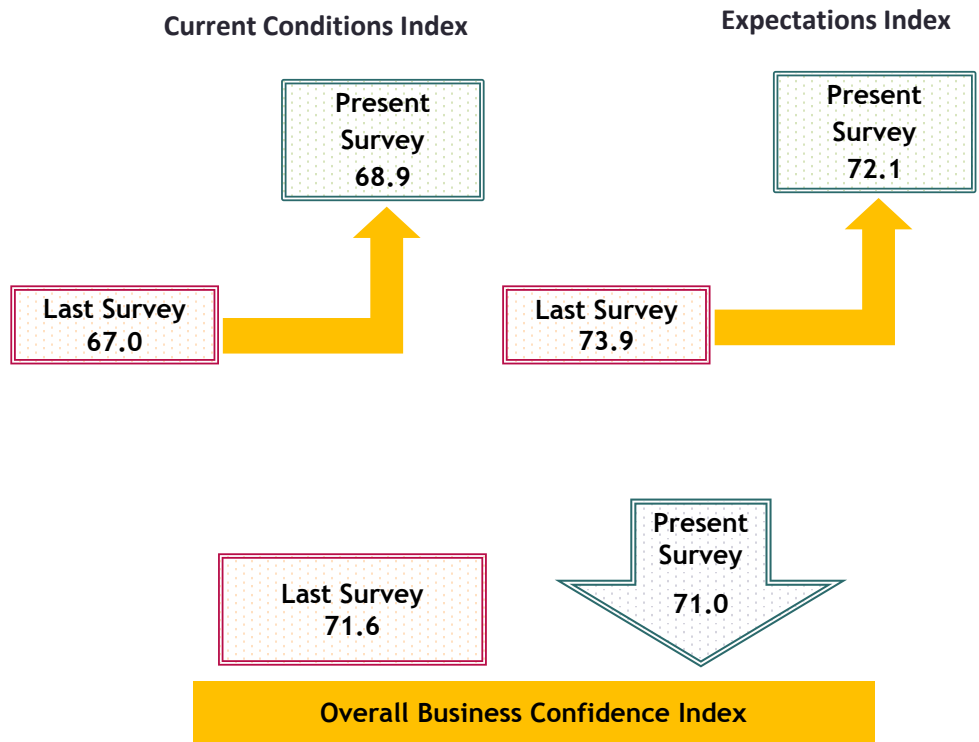


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Business Confidence Index

Overall Business Confidence Index



OBCI stood at 71.0 after touching an eleven quarter high of 71.6 in the previous round...

...Expectations Index notes a marginal moderation

The Overall Business Confidence Index fell marginally in the present round and stood at 71.0. The corresponding number in the previous round was 71.6.

The assessment of respondents with regard to current conditions as well as expectations was subdued in the latest survey round. The respondents were skeptical about the performance at economy and industry level, however they seemed more confident about their own firm level performance.

While measures like demonetization and transition to GST did hit business sentiment temporarily, there are signs that the impact of these two reforms is fading out. However, at present a different set of challenges are being faced by industry. International crude oil prices have been on an upswing imparting pressure on input prices. In addition, the protectionist policies being adopted by some major economies is creating an environment of uncertainty. Also, the rise in NPAs of public sector banks is impacting their lending capacity.

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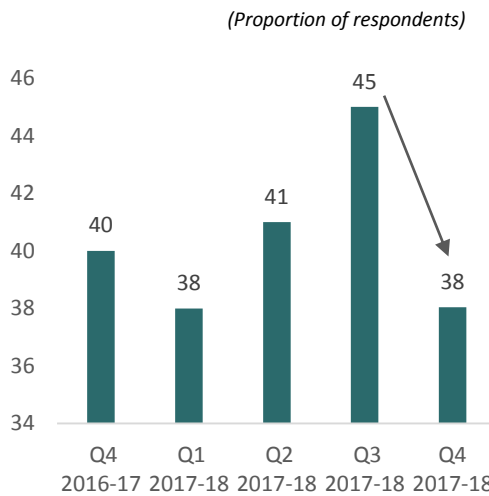
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Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments over the near term declined in the present survey vis-à-vis the previous round as well as the corresponding round previous year.

In the current survey, 38% participating companies anticipated an increase in investments over the next two quarters. The corresponding number in the previous round was 45%.



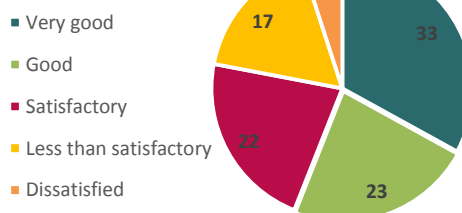
While the latest numbers for gross fixed capital formation did report some pick up in investment activity, the private sector investors continue to be circumspect. The corporates remain leveraged and with RBI announcing the new set of NPA norms the lending capacity of public sector banks has been restrained further. The new norm under which an asset is considered as a NPA even though it has defaulted by just one day will increase NPA reporting.

Furthermore, volatility in demand conditions, cheaper imports and frequent changes in policies are some of the other challenges that companies have been facing persistently. This has also caused offsetting of investment decisions by respondents.

Given that investments have been slow to pick up, respondents were also asked to share their experience on the current regulatory and operational environment and suggest ways to enhance ease of doing business in the country.

A majority of the respondents were satisfied with the current regulatory and operational environment with about 64% of the respondents citing 'very good', 'good' and 'satisfactory' experience. Only, about 5% respondents were dissatisfied in the current scenario.

Current Regulatory and Operational Environment



Investment outlook remains subdued....

2/3rd of the respondents are satisfied with the current regulatory and operational environment....

Stressed corporate and bank balance sheets, volatility in demand, frequent changes in policy are some factors affecting investment plans....



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Operational Parameters

Face to face dealing with government officials, frequent changes to policies and GST related glitches/delays are some of the challenges facing businesses....

Even though the respondents seemed satisfied with the regulatory environment, it was suggested that a comprehensive review must be carried out to assess the impact of the reform measures already undertaken. Also, there are certain regulatory hurdles being faced by the companies which are impeding the business environment.

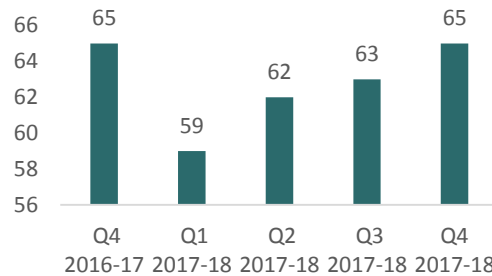
Respondents raised concerns over the need for face to face interaction between businesses and government officials at some point in the process of getting clearances. They called for minimal government interference in doing business and suggested a 100% online system.

Further, there have been concerns around GST and the e-way bill. Participating companies believe that a speedy resolution for input tax credit stuck for months is the need of the hour as significant amount of working capital remains locked up. In addition, it was suggested that infrastructure must be strengthened to address frequent glitches and enable smooth movement of goods by upgrading back end support.

Respondents also felt that sudden changes to policies must be avoided and transparency between state and central government interaction should be enhanced.

Sales

(Proportion of respondents)



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

65% participating companies anticipated an increase in sales over the next two quarters, vis-à-vis 63% stating likewise in the previous round.

Near term sales prospects improve...

The demand situation is gradually improving and the economy is on the recovery path. This bodes well for the companies and sales are expected to recover over the near term.

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Operational Parameters

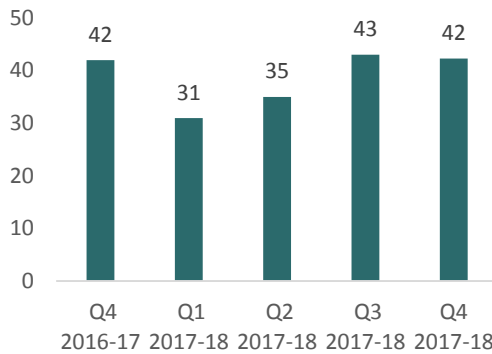
The growth numbers for commercial vehicles, three and two wheelers sales have been encouraging. Also, the quarterly results of FMCG companies report a pickup indicating signs of revival in both rural as well as urban demand.

Profits

In the present survey, not much change was noted in the profit outlook of the companies. Proportion of respondents citing higher profits over next six months fell by a percentage point in the latest round.

Proportion of respondents citing higher to much higher profits moderated to 42% in the present survey. The corresponding number in the last round was 43%.

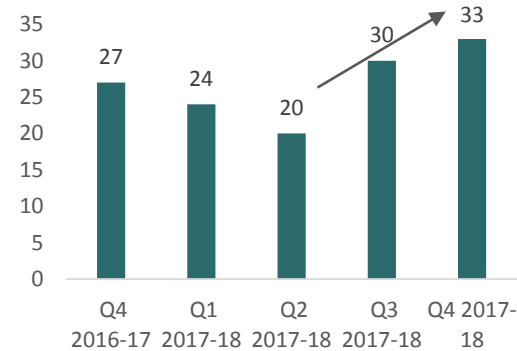
(Proportion of respondents)



Survey results indicate slight moderation in outlook on profits...

Input prices have been firming up with global commodity prices on rise. Besides, weakening Rupee is likely to add to the cost of production and will further impact earning prospects.

(Proportion of respondents)



Employment

As per the latest survey, outlook on employment generation reported an improvement for the second consecutive quarter.

In the present round, about 33% respondents said that they foresee hiring new employees over the next six months; vis-à-vis 30% stating likewise in the previous round.

Employment prospects continue to improve for the second consecutive quarter...

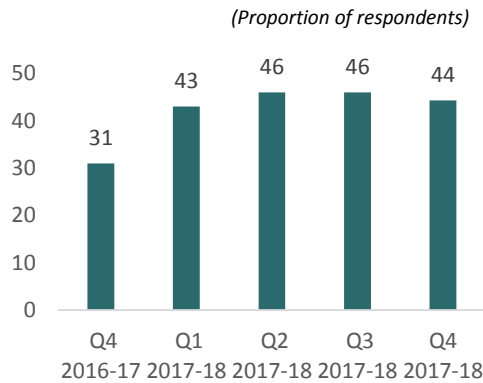
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Operational Parameters

Exports prospects witness a marginal fall...

Exports



In the latest survey, 44% respondents said that they foresee higher to much higher outbound shipments during the period April to September 2018. The corresponding number in the previous round was 46%.

The trade outlook for the year 2018 is buoyant. However, the spurt in protectionist tendencies is impacting the sentiment at ground level.

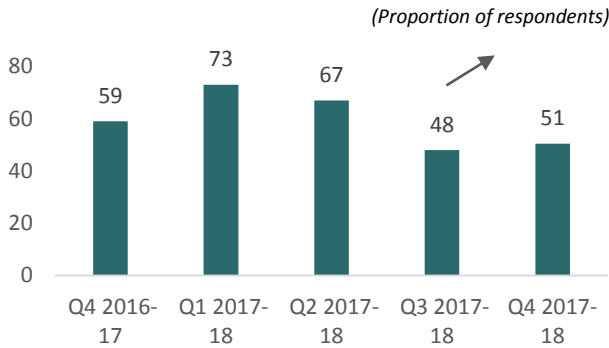
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Constraining Factors

Proportion of respondents citing weak demand as a constraining factor witness an increase

According to the results of our latest survey round demand conditions were seen coming under some strain. A little over half of the participating companies cited weak demand as a bothersome factor for their business. The corresponding number in the previous round was at a five quarter low of 48%. This number comes despite an improvement noted in domestic as well as external demand conditions over past few months. Nonetheless, there are signs of pressure arising on external sector demand.



...51% respondents cite weak demand as a constraining factor....

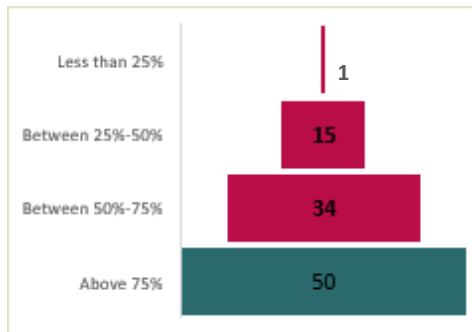
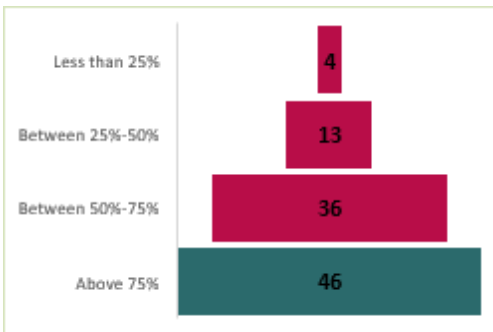
46% respondents indicated a capacity utilization rate of over 75% in the present round; vis-à-vis 50% stating likewise in the previous round.

Capacity Utilization

(Proportion of respondents)

Present Survey

Last Survey



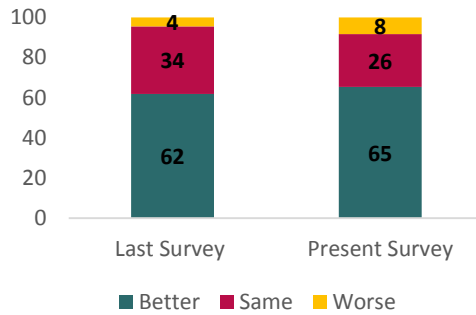
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Constraining Factors

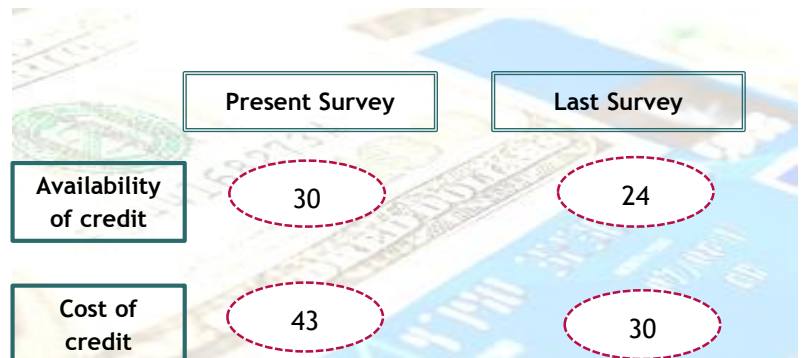
However, an improvement is noticed in the proportion of respondents anticipating better order books over next six months. 65% companies cited an improvement in their expected order book position in the current round vis-à-vis 62% stating likewise last time.

Expected order book position over next two quarters



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor increased to 43% from 30% who said likewise in the previous round.



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Constraining Factors

Further, the proportion of respondents stating availability of credit as a constraining factor also noted an increase. 30% companies reported availability of credit as a major concern as compared to 24% stating the same in the previous round.

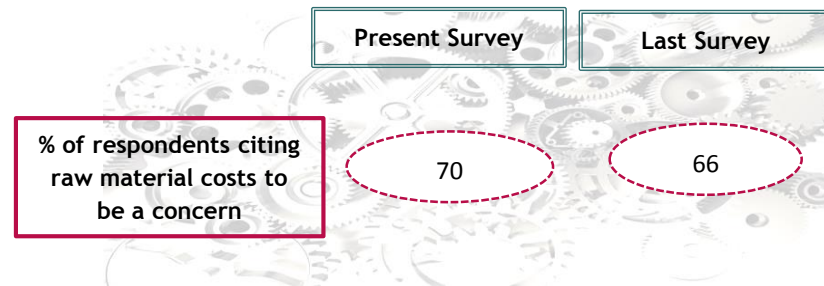
Survey findings indicate that companies are paying an average interest rate of 10.5% on term loans and an average interest rate of 10.7% on working capital loans.

Average Interest on Term Loans: 10.5%
Average Interest on Working Capital Loan 10.7%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reflected to be a constraining factor by 70% of the respondents. The corresponding figure in the previous survey round was 66%, and 61% a year back.

(Proportion of respondents)



Raw material costs posing a major stress factor...

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Impact of increasing protectionism on India

The possibility of a trade war amongst major economies of the world is a key concern at present. The United States and China have imposed significant tariffs on each other's exports and these developments are likely to have a bearing on the outlook for global trade and economic growth over the short to medium term. Given this backdrop, companies were asked to share their opinion on the likely impact of these developments on India and the Indian industry.

Most of the participants agreed that economic growth in India is majorly dependent on domestic factors and that a protectionist stance by others will have a limited impact on our economy.

In fact, a majority of respondents held the view that this is a good opportunity for India to gain a greater market share and that the government should play a more proactive role in furthering its endeavor of expanding India's export base – both in terms of products and destinations. It was felt that the extent of gains will depend on the way the government copes with the situation.

The participants cited that while US is the biggest market for India, China is a major competitor in the field of engineering goods, textile and pharmaceuticals. These products account for a big share in India's total export basket. They felt that India can leverage the opportunity to build on the US market. Likewise, China also opens up a bigger window of opportunity for India in the food processing space as US' presence diminishes. While India can look at boosting investment led trade with China, a more strategic engagement can be looked upon with the US in terms of defense, technology, space etc.

The participating companies felt that even though there are opportunities that can arise for India, there are pertinent risks that can impact our economy. India is closely integrated with the global economy and has strong trade linkages with both US and China. A possibility of a full blown trade war can change the global dynamics and is likely to weaken investment sentiment causing an unfavorable situation for India.

There will be some impact on the trade deficits owing to increase in import duties. Global prices will become even more volatile creating greater uncertainty. This will in turn fuel inflation, impact financial markets, exchange rates and affect small and medium enterprises adversely.

Opportunities...

- ✓ Increase exports by strengthening Make In India Scheme
- ✓ Gain greater market access

Challenges...

- ✓ Weaker investor sentiment
- ✓ Difficulties on macro economic front
- ✓ Threat from dumping of Chinese products

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Participating companies also pointed out that after losing access to the US markets, China will look at India as a market for its products. This could hurt the domestic industry and put pressure on the trade deficit.

Calling increased protectionism unfortunate and cause of increased pessimism, respondents felt that India must adopt a pre-emptive approach to safeguard itself. Participating companies opined that India must review its bilateral agreements with countries to protect its interests.

Additionally, respondents opined that further efforts should be undertaken to strengthen the Make In India scheme. Innovation in manufacturing will act as a key enabler in capturing a sizeable share in the international market.

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Views on E-way Bill

E-way bill has been implemented from April 1, 2018 for inter-state movement of goods. The government is also planning to roll out e-way bills for intra-state movement of goods under the GST regime. In light of this, participating companies were asked whether they foresee better efficiency and quicker movement of goods under the e-way bill regime. They were also asked to share the challenges being faced and give suggestions for smoother implementation of the same.

Almost all participating companies agreed that once the teething issues are surpassed, the introduction of e-way bill will eventually improve efficiency. Movement of goods across states will be smoother resulting in supply chain efficiencies as the transit time is expected to reduce significantly. This will also lower logistics cost thereby bringing down the prices.

Further, participants felt that since businesses will be made accountable for each invoice they raise for movement of goods, an effective e-way bill mechanism complemented by coordination between various government departments has the potential to restrict black market economy. It will also promote ease of doing business as the system will lessen overall complexity involved in transit of goods and reduce interruptions by indirect tax authorities. It has the potential to self check tax evasion and increase tax compliance by formalizing the economy.

Despite a whole host of benefits that the e-way bill offers, many participating companies felt that developing a smoother interface will take time. They also listed some challenges that are inhibiting effective implementation and suggested methods to overcome the same.

Participants said that first and foremost, government must ensure a robust IT infrastructure to overcome frequent technical glitches. There is a need for efficient troubleshooting mechanism to avoid disruptions. A well informed and trained 24x7 customer care center must be put in place which can act as a helpline by providing clarity on the issues and concerns raised and also provide the necessary IT support.

In addition, it was pointed out that since the system is in early stages of implementation and due to frequent glitches, many businesses (mainly SMEs) are manually filing returns as they require time to automate the process. Therefore, respondents suggested that some flexibility/ relaxation be granted for smoother adherence to the new regime by deferring penalty clauses to a later date.

As for intra-state movement, respondents said that it would have been better if the e-way bill was introduced uniformly across states. They called for uniformity in the provisions involving exemptions such as movement of goods within city limits, exempted goods and validity of e-way bills.

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As the server capacity of IT network of GST (GSTN) is already under pressure, participants feel that the government must focus on expanding the capacity and the speed of the server for improving the efficiency of new system. This becomes even more important as adding intra-state e-way bills will exponentially raise the number of transactions.

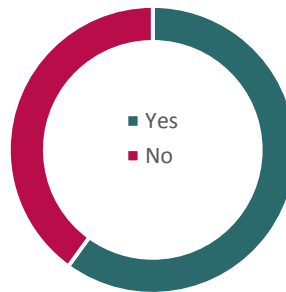
Finally, participants felt that greater awareness must be created among all stakeholders to avoid confusions and difficulties.

Experience on Public Procurement (Preference to Make In India) Order

The Public Procurement (Preference to Make In India) Order was cleared by the cabinet last year and several initiatives have been undertaken by the Government to smoothen public procurement framework in India with the objective of making it more transparent and efficient. Views of the companies were sought on their experience with the new procurement process.

A majority of the participants responding to this question said that the new e-tendering process is a better and a simplified version than the earlier one. It is transparent and involves lesser interference of government departments.

Is the E tendering process simple and transparent?



However, about 40% respondents felt that the tender process is still tedious and needs further simplification. It was also felt that even though tenders must support the government's Make In India initiative, preference is given to foreign players many a times.

To support Make In India and ease out the e-tendering procedure, it was suggested that government digi-locker for all documents is implemented.

Lastly, it was felt that the Government e-Marketplace (GeM) portal must be made more customer friendly.

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Survey Profile

The survey drew responses from about 250 companies with a turnover ranging from Rs 40 lakhs to Rs 6,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period April 2018 to September 2018.

Broad Sectoral Coverage			
Chemicals	Yarns/Fabric	Textiles	Jewellery
Agricultural Equipment	Financial Services	Food Processing	Medical Devices
Energy	Leather Goods	Services	Plastics
Automotive	Steel & Steel Products	Industrial Machinery	Metals
	Electronic Products	Pharmaceuticals	

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