

March
2015

90th Business Outlook Survey



Confederation of Indian Industry



90th BUSINESS OUTLOOK SURVEY

(January - March 2015)

HIGHLIGHTS

- The CII Business Confidence Index (CII- BCI) for January - March 2015 quarter stood at 56.4, registering a slight increase from 56.2 in the previous quarter.
- Domestic economy appears on the path of recovery, with GDP expected in the range of 6.5-7.5 per cent while inflation is expected to fall below 6.0 percent in 2014-15.
- The government is expected to contain the twin deficits. CAD is expected to be below 2.5 per cent while Fiscal Deficit is expected to be less than 4.5 per cent in 2014-15.
- Average exchange rate is expected to lie in the range of Rs 60-63 per US dollar in 2014-15.
- Continued recovery in new orders to drive up sales further in fourth quarter of 2014-15.
- Capacity utilization expected to increase in Q4 FY15 as recent reforms by the government help improve business sentiment.
- Firms expect investment plans to remain unchanged in Q4 FY15, in a possible indication of excess capacity in the system.
- Input costs, in general, are expected to moderate in Jan-Mar 2015 quarter.
- In line with the expectation of a moderation in expenditure and a surge in new order and sales, higher percentage of respondents expect an increase in profits in Jan-Mar 2015 quarter.
- Moderation in domestic growth, a slow revival of the global economic activity and high borrowing cost are the three big concerns.

BUSINESS CONFIDENCE INDEX

The CII Business Confidence Index (CII- BCI) for January- March 2015 quarter inched up to 56.4 as against the level of 56.2 recorded in the previous quarter. The uptick in the index from the previous quarter was mainly attributable to slight improvement in the Expectations Index from the previous quarter, even as the Current Situation Index maintained status quo.

The respondents in the survey were asked to provide a view on the performance of their firm, sector and the economy based on their perceptions for the previous and current quarter. The CII-BCI is then constructed as a weighted average of the Current Situations Index (CSI) and the Expectation Index (EI).

A further reading of the EI indicated that, though the respondents became less optimistic in their expectations for the overall economy and their own firm, however they remained confident about a recovery in their activity sector, which helped drive the EI higher this quarter.

Quarterly Business Confidence Index (BCI)

Index	Q4 FY12	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15
Business Confidence Index	52.9	55	51.3	49.9	51.3	51.2	45.7	54.9	49.9	53.7	57.4	56.2	56.4
Current Situation Index	54.7	51.9	47.5	48.6	47.1	48.7	46.1	51	47.3	50.1	51.4	53.5	53.5
Overall Economy	49.4	48.9	36.3	44.5	44.2	44.5	35.1	41.6	40.4	46.8	51.2	55	54.3
Own Activity Sector	46.9	46.9	44.6	45.9	46.3	46.1	43.9	47.7	44	46.8	49.2	49.4	52.7
Own Company	56.3	56.3	53.2	51.7	48.7	51.7	51.3	56.3	51.9	53.4	52.9	55.8	53.8
Expectation Index	51.9	56.5	53.2	50.6	53.4	52.5	45.4	56.8	51.2	55.5	60.5	57.6	57.8
Overall Economy	48.9	52.8	44.6	47.5	49.1	49.4	37	50.1	46.1	52	59.9	59.2	58.1
Own Activity Sector	46.9	53.5	49.8	48.1	52.2	50.6	43.6	54.3	49.1	54.6	59.1	54.5	57.5
Own Company	56.3	59.7	58.4	53.3	55.7	54.7	49.5	60.7	54.3	57.3	61.6	59.1	57.9

* The Survey is conducted on a quarterly basis since the 74th Business Outlook Survey

GENERAL ECONOMIC PROSPECTS

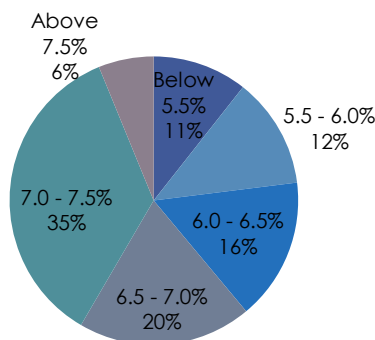
GROWTH & INFLATION

Domestic economy appears on the path of recovery, with GDP expected in the range of 6.5-7.5 per cent while inflation is expected to fall below 6.0 percent in 2014-15.

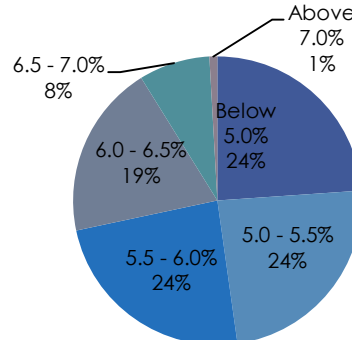
Majority (55 per cent) of the respondents expect GDP growth to settle in the range of 6.5-7.5 per cent in 2014-15. This comes directly in line with the revised estimate for 2014-15 GDP growth of 7.4 per cent provided by CSO, as per the new 2011-12 GDP series.

Further, a large number of respondents have lowered their inflation expectations in view of the recent correction in both wholesale and retail inflation. A considerable share (72 per cent) of the respondent believe that wholesale inflation will remain below the 6.0 per cent level in 2014-15.

**Expected Economic Growth in 2014-15
(% of Respondents)**



**Expected Average WPI Inflation for 2014-15
(% of Respondents)**



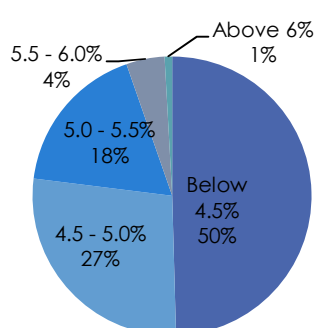
THE TWIN DEFICITS - FISCAL & CURRENT ACCOUNT

The government is expected to contain the twin deficits. CAD is expected to be below 2.5 per cent while Fiscal Deficit is expected to be less than 4.5 per cent in 2014-15.

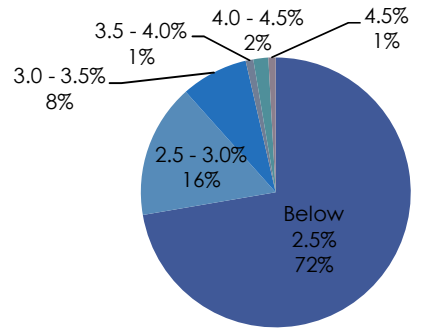
In the 90th CII-BOS survey, a significant proportion (77 per cent) of the respondents expect fiscal deficit to be less than 5.0 per cent in 2014-15. Of this, 50 per cent of the respondents believe that the government will limit the fiscal deficit below 4.5% this fiscal year.

On similar lines, majority (72 per cent) of the respondents expect current account deficit to be less than 2.5 per cent of GDP in 2014-15. It is pertinent to note that India's current stands at 1.8 per cent of GDP in the first three quarter of this fiscal year, after it account deficit narrowed sharply to 1.7 per cent of GDP in 2013-14 from 4.7 per cent of GDP in 2012-13.

**Expected Fiscal Deficit in 2014-15
(% of Respondents)**



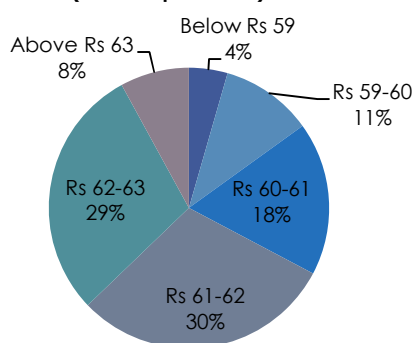
**Expected Current Account Deficit in 2014-15
(% of Respondents)**



EXCHANGE RATE

In view of the stability in the value of the Rupee in recent months, most (77 per cent) of the respondents expect the exchange rate to lie in the range of Rs 60-63 per US dollar in 2014-15.

**Expected Exchange Rate in 2014-15
(% of Respondents)**



GENERAL BUSINESS PROSPECTS

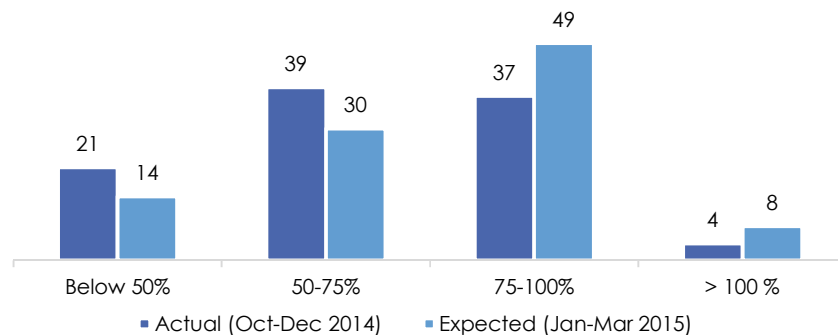
CAPACITY UTILISATION

Capacity utilization expected to increase in Q4 FY15 as recent reforms by the government help improve business sentiment.

As compared to the previous quarter, majority of the businesses expect capacity utilization to improve in the Jan- Mar 2015 quarter. More than half (57 per cent) of the respondents expect capacity utilization to be above 75 per cent level in Jan-Mar quarter, up from 41 per cent in the Oct- Dec quarter. Correspondingly, fewer respondents (44 per cent) expect capacity utilization to fall below 75 percent in Jan-Mar quarter, as compared to 60 per cent of them reporting the same in the Oct-Dec quarter.

This indicates high business sentiment and is in line with the recent initiative and policy actions taken by the government to improve business environment and increase confidence. On the whole, an improvement in capacity utilization could mean the beginning of an improvement in the overall demand conditions for firms.

Capacity Utilisation (% of Respondents)



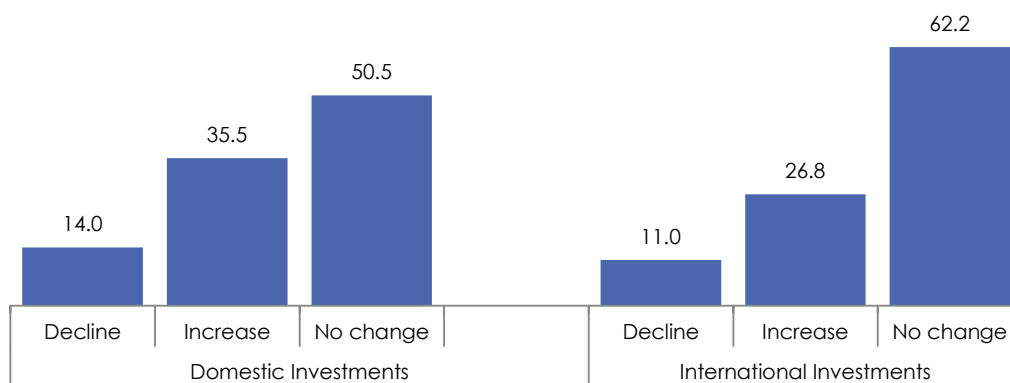
INVESTMENT PLANS

Firms anticipate no change in investment plans in Q4 FY15

More than 50 per cent of the respondents do not anticipate a change in their domestic investment plans in Jan-Mar 2015. Similarly, a higher share of respondents (62.2 per cent) expect their international investment plans to remain unchanged in Jan- Mar 2015 quarter.

Subdued investment plans, despite an expected surge in sales, can be possibly be lined to the unutilized capacity available in the economy.

Investment Plans for Jan-Mar 2015 (% of Respondents)

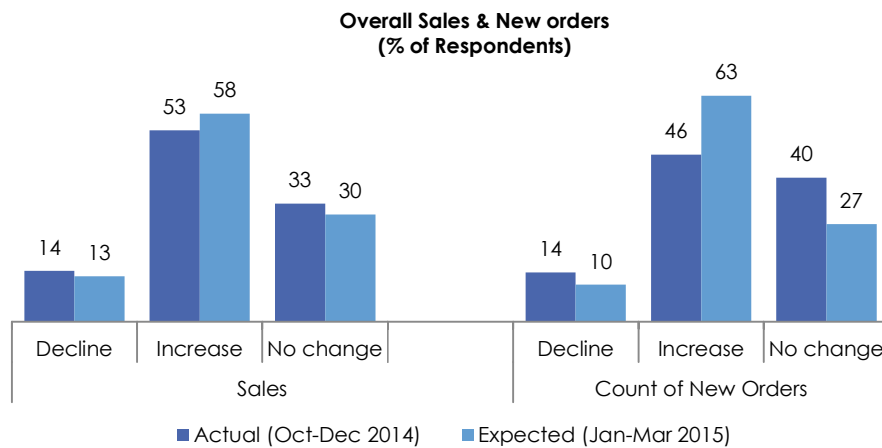


OVERALL TRENDS

OVERALL SALES & NEW ORDERS

Continued recovery in new orders to drive up sales further in Jan-Mar 2015 quarter

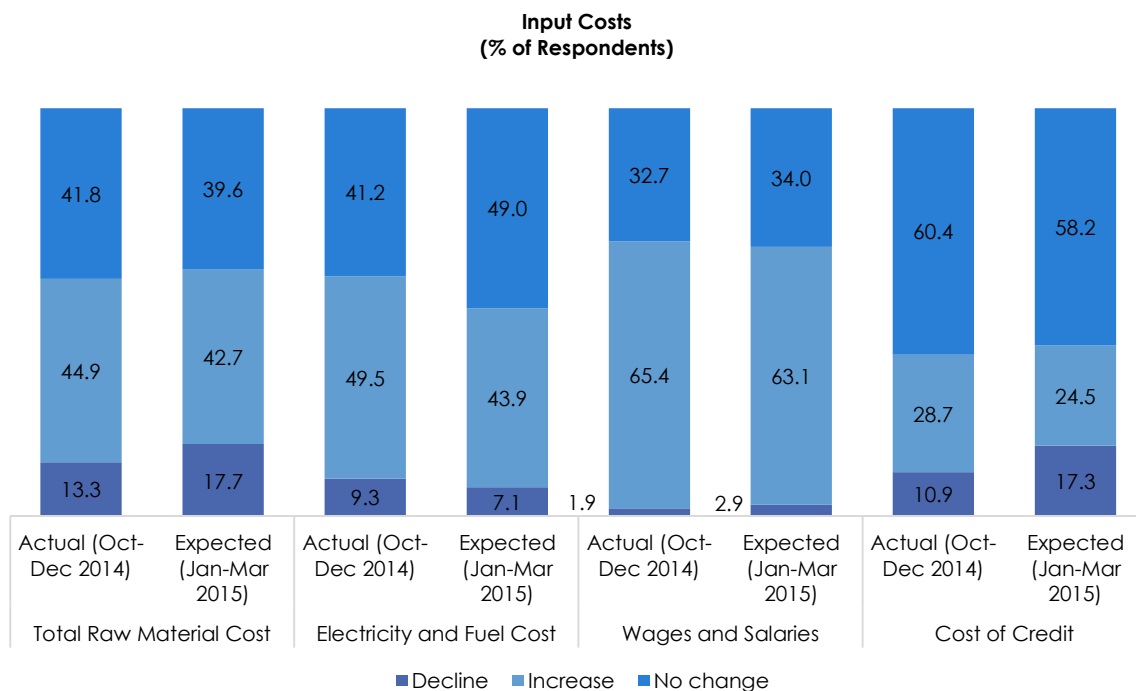
Sales and new orders are expected to improve further in Jan- Mar quarter. An increase in sales in Jan-Mar quarter is expected by 58 per cent of the respondents, up from 53 per cent respondents witnessing increase in their sales in the previous quarter. Similarly, 63 per cent of the respondents expect new order to improve in the fourth quarter of FY15, higher than 46 per cent in the earlier quarter.



EXPENDITURE

Input costs, in general, are expected to moderate in Jan-Mar 2015 quarter

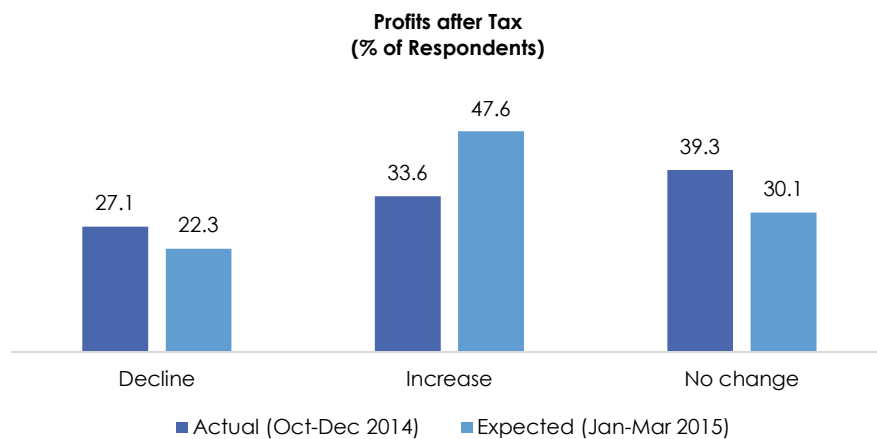
As compared to the Oct-Dec quarter, a higher percentage of respondents expect raw material cost, fuel cost, wages & salaries and cost of credit to either witness no change or decline in Q4 FY15. This can be attributed to moderating inflationary expectations in the economy.



PROFITS AFTER TAX

Higher percentage of respondents expect an increase in profits in Jan-Mar 2015 quarter

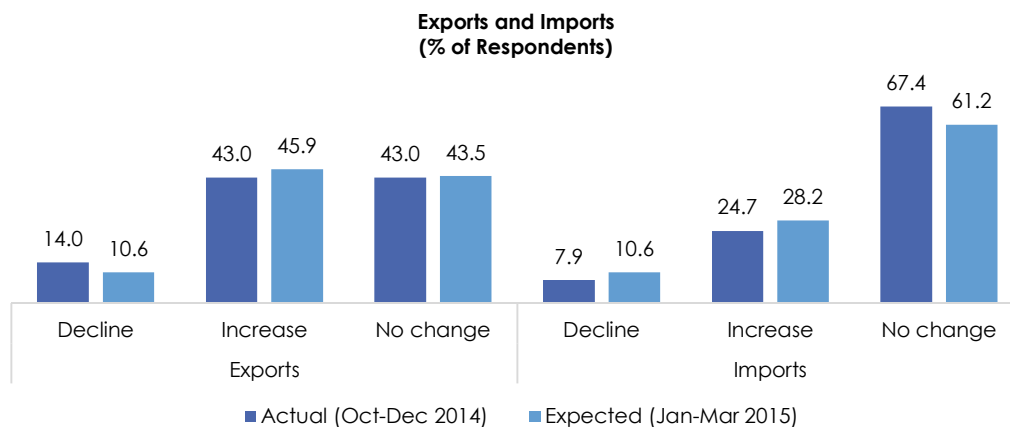
Relatively higher proportion (47.6 per cent) of the respondents expect after-tax profits to increase in the Jan- Mar 2015 quarter, as compared to 33.6 per cent who witnessed an increase in the same in the Oct-Dec 2014 quarter. This increase may be driven by expectation of recovery in new orders and sales coupled with moderation in expenditure in the Jan- Mar 2015 quarter.



EXPORT AND IMPORT TRENDS

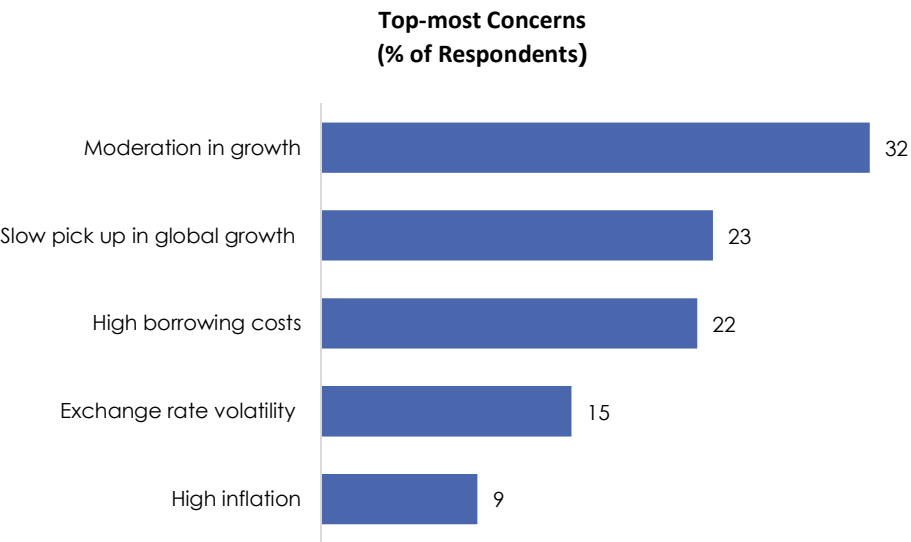
Slight rise in percentage of respondents expecting increase in exports and imports

45.9 per cent of the respondents expected their export orders to increase in Jan- Mar2015 quarter, slightly higher than 43.0 per cent who had seen the increase in their export orders during the previous quarter. On the imports front, there is a slight increase in the percentage of respondents expecting an increase in imports in the Jan-Mar 2015 quarter even as majority of the respondents (61.2 per cent) anticipate imports to remain unchanged.



BUSINESS CONCERNS

Moderation in domestic growth, a slow revival of the global economic activity and high borrowing cost are the three big concerns



COVERAGE & METHODOLOGY

CII's 90th Business Outlook Survey is based on sample survey of firms covering all industry sectors, including micro, small, medium and large enterprises from different regions. The survey also enumerated responses across industry groups both in public and private sectors engaged in manufacturing and services sector.

The survey was conducted from January - March 2015, covering more than 152 firms of varying sizes. Majority of the respondents (48 per cent) belonged to large-scale firms, while 17 per cent were from medium-scale firms and 28 per cent and 7 per cent each were from small-scale and micro firms, respectively. Sectoral break up shows that 44 per cent of the respondents were from manufacturing sector while 50 per cent were from services sector and 6 per cent from primary sector, respectively.

CII-BCI is calculated as a weighted average of the Current Situation Index (CSI) and the Expectation Index (EI), with greater weight given to EI as compared to CSI. These indices are based on questions pertaining to performance of the economy and respondent's firm. Respondents are asked to rate the current and expected performance on a scale of 0 to 100. A score above 50 indicates positive confidence while a score above 75 would indicate strong positive confidence. On the contrary, a score of less than 50 indicates a weak confidence index.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1905, India's premier business association has over 7200 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 242 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme of 'Accelerating Growth, Creating Employment' for 2014-15 aims to strengthen a growth process that meets the aspirations of today's India. During the year, CII will specially focus on economic growth, education, skill development, manufacturing, investments, ease of doing business, export competitiveness, legal and regulatory architecture, labour law reforms and entrepreneurship as growth enablers.

With 64 offices, including 9 Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 312 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

The Mantosh Sondhi Centre

23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)

T: 91 11 45771000 / 24629994-7 • F: 91 11 24626149

E: info@cii.in • W: www.cii.in

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Reach us via our Membership Helpline: 00-91-11-435046244/ 00-91-99104 46244
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