Build India – Invest in Development
A Shared Responsibility

Confederation of Indian Industry

ASCON Industry Survey

November 2015

Contents

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EXECUTIVE SUMMARY

The CII ASCON Industry Survey for July –September FY16 over the year ago period reveals mixed growth trends in Q2FY16 as compared to the year ago period, indicating a slightly uneven pickup in economic activity in the surveyed quarter. While pointing to some green shoots of recovery emerging in the economy, the Survey results signal a modest/gradual course of economic recovery.

The CII ASCON Industry Survey for July –September FY16 quarter reveals emergence of some green shoots like improvement in the sales and production of commercial vehicles and healthy excise duty collections signaling an improvement in commercial activity supportive of revival in consumption and investment demand growth in the coming quarters. However, overall, the Survey suggests that recovery remains in low gear with growth trends still tilted toward modest growth. The Survey suggests taking proactive steps on various fronts to support the recovery and make it broad-based.

The Survey classifies the growth trends across four broad categories, namely excellent (>20%), good (10-20%), Moderate (0-10%) and negative (<0%).

The Survey reveals that out of the 91 sectors surveyed, the share of the sectors recording "excellent" growth in July- Sept FY16 quarter has come down to 5.5 percent (5 out of 91) as against 14.6 percent (14 out of 96) last year. The share of sectors witnessing a "high" growth rate in the range of 10 to 20 percent has moderated to 17.6 percent (16 out of 91) from 25 percent (24 out of 96) during the corresponding period a year ago.

At the same time, a significant rise has been witnessed in the share of sectors reporting "moderate" growth which rose to 46.2 percent (42 out of 91) in Q2 FY16 as compared to 27.1 percent (26 out of 96) recorded in the same quarter last year suggesting a shift of sectors from excellent and high growth category to moderate growth category. What is noteworthy is that there has been a slight decrease in the share of sectors recording "negative" growth which has slightly come down to 30.8 percent (28 out of 91) in Q2 FY16 as against 33.3 percent (32 out of 96) recorded in the same quarter last year.

Aggregating the sectors on the basis of positive growth and negative growth also reveals a marginal improvement in sectoral growth performance as compared to year ago period. Around 70 percent of sectors recorded positive growth in Q2 FY16 as compared to 66.7 percent in Q2FY15. This shows that around 30 percent of the sectors surveyed in Q2 FY16 have reported negative growth as compared to 33.3 percent in the corresponding quarter in the previous year. The upward movement of sectors from

negative to positive territory indicates some improvement in economic activity in the survey quarter.

A further analysis of the use-based classification of sectors reveals that the environment, though improved, is not smooth sailing yet and recovery will take some time. A majority of sectors in the producer goods segment (basic, intermediate and capital goods sectors) are still to show some definitive signs of recovery. In the basic and intermediate goods categories, a large number of sectors have reported growth numbers falling in the moderate category. This reflects a slow momentum in activity levels, led by the steps taken by the government towards project clearances, simplification of procedures, new investment announcements as well as the 'Make in India' initiative.

Core sector growth would be coming from the capital goods sector, which is an indicator of the actual implementation of the announcements on the ground. Some subsectors in the capital and engineering goods sectors have reported a moderate outlook. This is in line with the previous Survey's forecast of a nascent investment and consumption recovery.

The performance of the consumer durables and non-durables sectors, an indicator of consumer spending, shows some signs of revival, especially in the consumer durables segment. The pickup in the demand for passenger cars and two wheelers indicates that the automobile industry is moving out of a severe slowdown on the back of an ease in interest rates, improved environment and fuel prices that have aided the recovery in the sector. However, overall, the pick-up in consumer demand is still modest.

On the services front, most of the sectors have reported moderate growth, further indicating a slow recovery on the back of subdued external and domestic demand and a tempered pick-up in domestic investments. A host of indicators such as rail freight and traffic at ports and foreign tourist arrivals point to a gradual pickup in economic activity, which is likely to gain momentum with the revival in consumer spending.

A sequential quarter-on-quarter basis comparison also presents mixed growth trends in Q2FY15 as compared to the previous quarter. According to the survey, the percentage of sectors reporting 'excellent' performance in July-Sept FY16 has come down significantly to 5.5 percent (5 out of 91) as compared to a share of 16.1 percent (15 out of 93) in the previous quarter. On the other hand, the share of high growth sectors have increased significantly to 17.6 percent (16 out of 91) in Q2 (July-Sept) FY16 from 9.7 percent (9 out of 93) in Q1 (April-June) 2016.

The number of sectors recording moderate growth has marginally shrunk to 46.2 percent (42 out of 91 sectors) as compared to 50.4 percent (47 out of 93 sectors) in Q1 FY16. However, the number of sectors recording a negative growth have increased somewhat to 30.8 percent (28 out of 91 sectors) in Q2 FY16 from 23.7 percent (22 out of 93 sectors) reported in Q1 FY16 posing questions on the economic mix of the recovery going forward.

Indicators such as capital investment suggest moderate to conservative improvement in investments. As a result of under-utilized capacities due to subdued demand, dumping from other countries and over-leveraged balance sheets of the companies, investments aimed at adding new capacities have slowed down. According to the Survey responses, around 80 percent of the respondents have reported capacity utilizations in the range of 50 to 75 percent for July-September FY16 quarter. This range of capacity utilization is expected to remain the same in the coming quarter.

On the issues and concerns impacting growth, lack of domestic demand (80%), competition from imports (69.2%), high regulatory burden (66.7%), cost and availability of finance (64.3%), high tax burden (58.3%) have been cited as the most important constraints by more than 50 percent of the respondents. Constraints such as margin pressure due to stiff competition and industrial relations / labour problems also were reported as other pressing issues before the companies

Given that economic resurgence crucially depends on how the infrastructure push shapes up especially after the recent easing of monetary policy and initiatives taken by the government in terms of expeditious project clearances, simplification of procedures and new investment announcements, the Survey responses suggest that manifestation of these indicators will take more time to percolate. 53.8 percent of respondents expect no change in new investments for the next two quarters while 15.4 percent expect the situation to decline somewhat. A moderate improvement in the economic situation is to be supported by some improvement in sales and exports on the back of some improvement expected in both domestic and global demand. On the sales front, while 57 percent of the respondents expect a modest improvement in the next two quarters, 28.6 percent expect the situation to remain same. On expectations on global environment providing some support, 41.7 percent of respondents expect some improvement in exports front situation while 33.3 percent expect the situation to remain same.

Going forward, a sustainable recovery would be conditional on improvement in domestic demand and investment revival. A weak global demand, limited ability of the corporate sector to support revival in capex on account of overleveraged balance sheets, further stress of impaired loans on bank balance sheets along with any moderation in rural demand will have a bearing on any upside.

Respondents have stressed on the need for reviving investments in the economy to boost demand. The Survey has recommended an array of policy measures to boost growth. Some such steps include, speedy implementation of infrastructural projects, reviving and strengthening PPP; continuing with the proposed 'plug-and-play' model for infrastructure projects and putting in place an effective dispute resolution mechanism for faster settlement of dispute.

To encourage investments, the industry has suggested extending incentives like the 10 year tax holiday u/s 80 IA to infrastructure companies; keeping Infrastructure sector outside the purview of MAT so that benefit of 80 IA tax holiday truly becomes available to the

companies; restoration of exemption under section 10(23G); allowing 150% deduction of capital expenditure for capital-intensive, infrastructure industries like steel etc.

The respondents have stressed on moving swiftly on the reforms agenda particularly ensuring quicker progress on reforms such as the GST Bill and LARR (Amendment) Bill, 2015 will impart greater certainty to investors on the policy front and addressing supply-side constraints on a variety of fronts including infrastructure, energy, agriculture and labour.

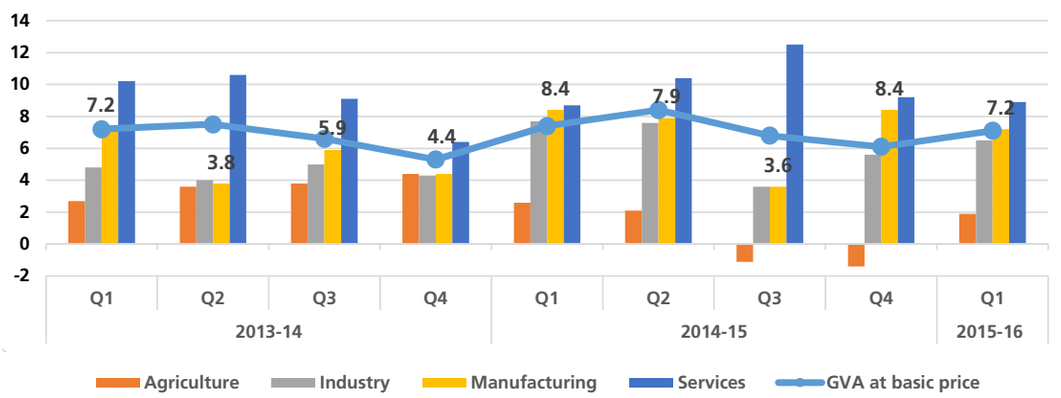
Further, a proactive role by both the Government and the private sector towards creation of employment opportunities in the non-farm segment of the rural sector through food processing, construction etc., enhancing of capital spending by the states, given that they are now recipients of higher resources from the Centre, would support in the creation of demand. Such a mix of policies, if implemented, would go a long way to revive investor sentiment which in turn would reignite growth in industry and the economy.

ECONOMY OVERVIEW

The fiscal year 2015-16 commenced with hopes and expectations of a robust recovery. The first quarter of the fiscal did show some signs of a nascent recovery in economic activity. However, at mid-year, the incoming lead indicators evidence a mixed growth outlook.

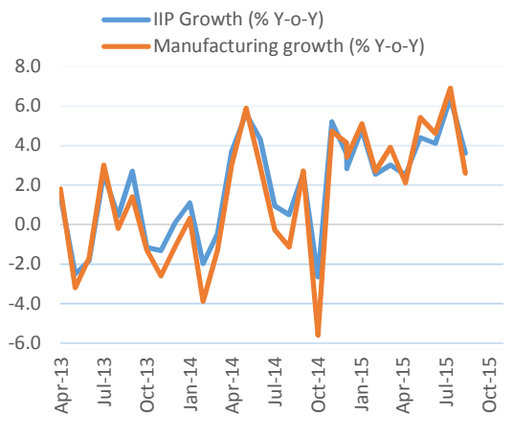
While India did match China as the world's fastest growing major economy with 7 per cent GDP growth in the Q1 (April-June) quarter of fiscal year 2015-16, India's GDP grew at a slower rate than provisional growth of 7.5 per cent in the (January-March) quarter slipped to 7 percent in (April-June) quarter of fiscal year 2015-16. However, growth in GVA saw an improvement of 100 bps to 7.1% in Q1FY16 from Q4FY15. Signifying an uptick in economy activity, GVA at basic prices recorded a sequential rise to 7.1% in Q1FY16, marking a reversal of moderation in GVA growth recorded in recent quarters from 8.4% in Q2FY15 to 6.8% in Q3FY15 and further to 6.1% in Q4FY15. The substantial improvement in GVA growth in sequential quarters was led by agriculture (to 1.9% in Q1FY16 from -1.4% in Q4FY15) and industry (to 6.5% from 5.6%) signifying an uptick in the real economy. However, growth of the services sector eased somewhat to 8.9% in Q1FY16 from 9.2% in Q4FY15.

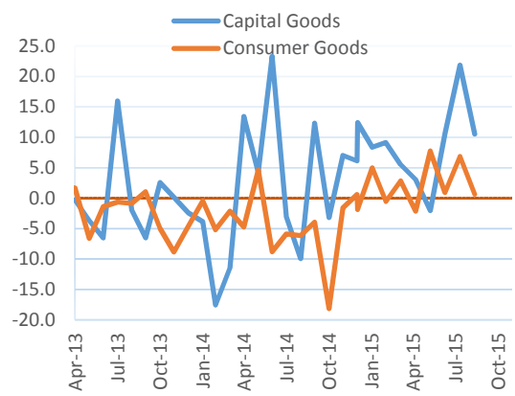
Growth Rate of GVA at basic price at Constant (2011-12) prices (%)



Despite headwinds such as sub-par monsoons and a weak external sector, the data on Index of Industrial Production (IIP) and inflation underscored resilience in the economy. IIP registered a growth of 4.0 per cent in H1 (April- September) FY16 as against 2.9 per cent in H1 FY15. On an average the manufacturing sector registered a growth of 4.2 per cent in H1 FY16 as against 2.2 per cent in H1 FY15.

On the demand side, capital goods output, a barometer of investment, has witnessed growth in 10 out of 11 months through September, suggesting that enhanced government spending has started to have a positive impact. On a cumulative basis, the sector registered a growth of 7.4 per cent in H1 FY16 as against 4.8 per cent in H1 FY15. Production of consumer durables also picked up ahead of the festive season. Signs of growth revival were also seen in tax collections and commercial vehicle sales. This signals a move towards a healing within the India Economy.



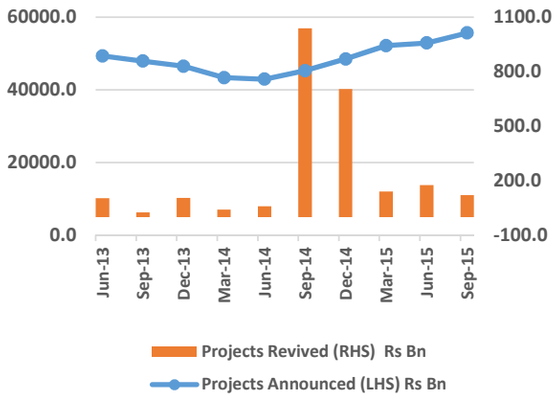


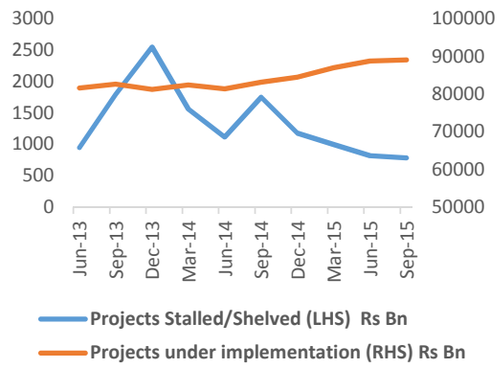
Source: *CSO*

On the domestic front, despite sub-par monsoons, inflation has continued to remain subdued. The monsoon deficit has breached the IMD estimate of 12% and stood at 14% below normal (as of 21st September '15). While rural consumption has taken a hit as validated by poor tractor sales, proactive measures from the Government have helped to keep price pressures in check through import orders of onions and pulses, etc

Incoming fiscal data continues to provide incremental comfort on continued robust tax collections and concomitant improvement in the quality of spending. Subdued crude oil prices and reforms on subsidy disbursements have indeed created an additional space for expenditure switching. Given the downward trajectory of inflation and limited upside risks in the wake of benign global commodity prices, the RBI chose to cut interest rates by 50 bps in end-September 2015 and has lowered the interest rates cumulatively by 125 bps. RBI's action has removed considerable uncertainty with regard to the direction of borrowing costs faced by industry.

On the investments front, facilitation of clearances by the Cabinet Committee on Investments (CCI), easing of approvals, improvement in sentiments and some improvement in availability and cost of funding have led to an encouraging pickup in new and revived projects, with an appreciable uptick in award and execution in the roads, railways and power transmission sectors. However the pace of activity remains mixed across sectors and persistence of stalled projects remains disconcerting.



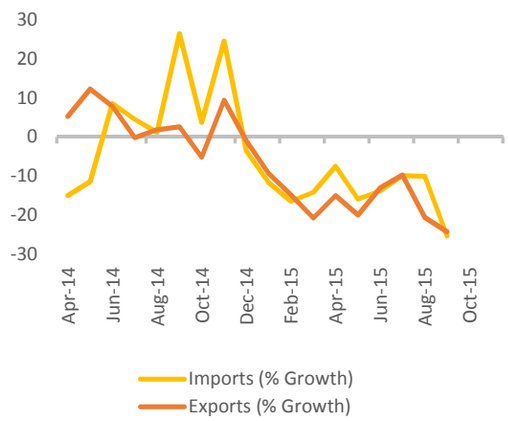


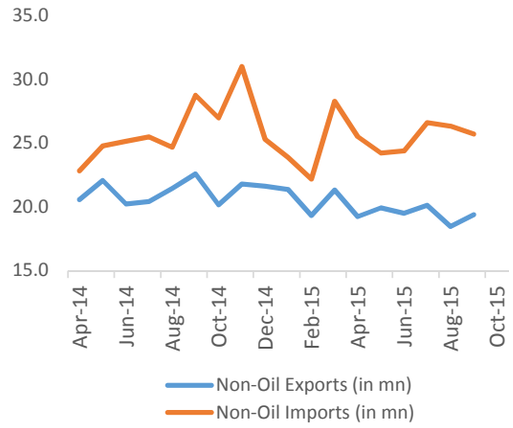
Source: *MOSPI*

On the reforms front, there was stability in government's decision making and issues related to spectrum, coal block allocations and issues related to environment have been sorted. India's improvement in the World Bank's Ease of Doing Business ranking is a reflection of the series of small steps announced by the government to foster an investment-friendly environment. Out of 189 countries ranked by the World Bank in its Ease of Doing Business report, India's rank has improved by 12 ranks to 130 this year. However, key major reforms related to land acquisition, GST and revamped labour laws would help India deliver an improved ecosystem and higher growth.

On the external front, India's current account deficit (CAD) stood at 1.2 per cent of GDP during Q1FY16 vs 1.6 per cent of GDP a year earlier mainly on account of an improvement in the merchandise trade deficit (US$ 34.2 billion during Q1 of FY16) which contracted on a year-on-year (y-o-y) basis due to a larger absolute decline in merchandise imports relative to merchandise exports. Though the Indian economy is mostly domestic demand driven, the current scenario reveals that India still has not decoupled from global events. Hit by the global slowdown, exports have dropped and consumer and industrial demand for imports has weakened. India's merchandise exports contracted for the 10th straight month in September 2015, contracting by nearly a quarter from a year ago period, registering the steepest decline in 75 months. The slowdown in China presages a continuation of the protracted low growth in global demand and a potential increase in competition for capturing global market share.

While major vulnerabilities have receded, some concerns remain. Plans for capacity addition are yet to become broad-based. The Order Books, Inventories and Capacity Utilization Survey conducted by the Reserve Bank of India reveals a modest decline in aggregate capacity utilization to 75.2% in Q4FY15 from 76.1% in Q4FY14. The subdued demand conditions also find a reflection in bank credit disbursals which have grown at the slowest pace on record in July. In line with the continued moderation in the domestic and global growth scenario, bank credit disbursals to manufacturing companies have





Source: *Ministry of Commerce and Industry*

also registered a lackluster growth. Moreover, non-food credit has in fact shrunk 0.48% during April-September FY16, reflecting the tepid demand for credit from corporates owing to a general slowdown in the economy.

On the domestic side, a further weakening of bank and corporate balance sheets could pose risks to economic recovery and weigh on financial soundness. The high NPAs in the banking system are adversely impacting lendable resources of banks. In fact, the gross NPAs as a percentage of total advances have gone up from 4.1% in March 2014 to 4.45% in March 2015.

On the back of the present developments on the economic front, Reserve Bank of India (RBI) has lowered the GDP growth forecast for the current fiscal to 7.6 per cent from 7.8 per cent, whereas the consensus is that India needs economic growth of at least 8 per cent to support and create enough jobs for its population of more than 1.2 billion. Owing to multiple factors such as continued economic slowdown in industrial countries, weak monsoon rainfall and stalled action on key structural reforms, most private and multilateral institutions have tempered their growth projections for India. International Monetary Fund (7.3% from 7.5%), Asian Development Bank (7.4% from 7.8%),Moody's Investors Service, (7% from 7.5%) while Singapore-based commercial bank DBS Group Holdings Ltd reduced its estimate to 7.4% from 7.6% for 2015-16.

CII ASCON INDUSTRY SURVEY RESULTS

2.1 Methodology

Against this backdrop, the Confederation of Indian Industry (CII) conducted the CII ASCON Industry Survey to ascertain the performance of industry during July-Sept (estimated) (Q2) FY16 against the year ago period and against the previous quarter, July-Sept (Q2) FY15. The Survey was conducted from mid-September till mid November 2015.

The Survey is based on the feedback collected from industry associations and various manufacturing related companies numbering more than 35,000. The companies covered in the Survey represent a wide spectrum of sectors including basic goods, intermediate goods, capital goods, consumer durables and non-durables and services. While the analysis for July-Sept FY16 is based on 91 sectoral responses that of April- June FY15 is based on 96 responses.

Based on varying rates of growth of industrial production at the sectoral level, the responses have been segregated in the following four broad categories: (i) 'Excellent' (growth in excess of 20%), (ii) 'High' (growth in the range of 10-20%), (iii) 'Moderate' (growth in the range of 0-10%) and (iv) 'Negative' (growth less than 0%).

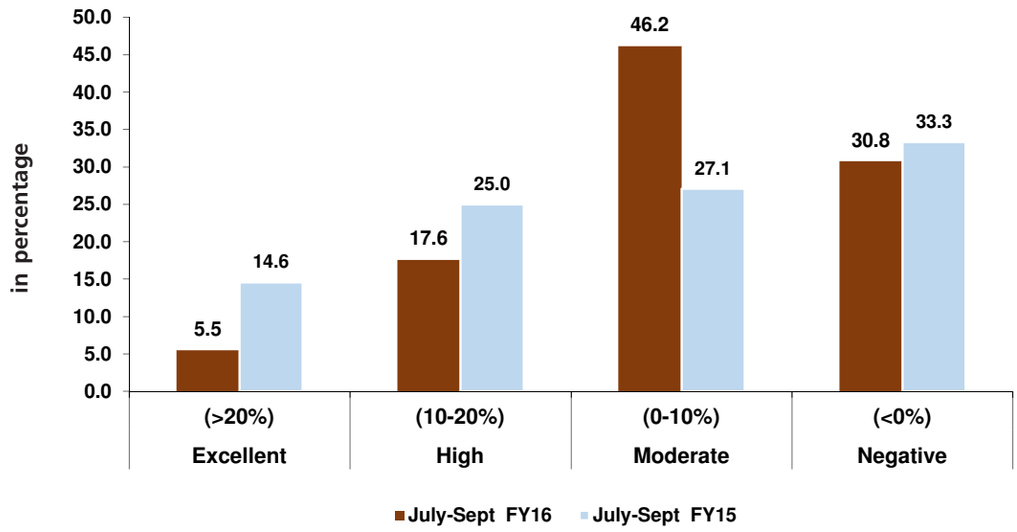
2.2 Industry growth performance during July-Sept FY16 over July-Sept FY15

The results of the latest CII ASCON Industry Survey for July-Sept FY16 reveals a mixed picture on the growth trends in the current quarter over the year ago period. This is borne out of the fact that out of the 91 sectors surveyed, the share of the sectors recording excellent growth of >20 percent in July-Sept FY16 quarter has come down to 5.5 percent (5 out of 91) as against 14.6 percent (14 out of 96) recorded in the same quarter previous year. At the same time, the share of sectors witnessing high growth rate of 10 to 20 percent has moderated to 17.6 percent (16 out of 91) in the July-Sept FY16 from 25 percent (24 out of 96) during the corresponding period a year ago.

On the other hand, a significant rise has been witnessed in the share of sectors reporting moderate growth which rose to 46.2 percent (42 out of 91) in Q2 FY16 as compared to 27.1 percent (26 out of 96) recorded in the same quarter last year suggesting a shift of sectors from excellent and high growth category to moderate growth category. What is noteworthy is that there has been a slight decrease in the share of sectors recording

"negative" growth which has slightly come down to 30.8 percent (28 out of 91) in Q2 FY16 as against 33.3 percent (32 out of 96) recorded in the same quarter last year.

Figure 2.1: Comparison of industry performance Q2 FY16 over Q2 FY15



Aggregating the sectors on the basis of positive growth and negative growth also reveals a marginal improvement in sectoral growth performance as compared to year ago period. Around 70 percent of sectors recorded positive growth in Q2 FY16 as compared to 66.7 percent in Q2FY15. This shows that around 30 percent of the sectors surveyed in Q2 FY16 have reported negative growth as compared to 33.3 percent in the corresponding quarter in the previous year. The upward movement of sectors from negative to positive territory indicates some improvement in economic activity in the survey quarter.

Table 2.1: Sectors which have shown a positive movement in % growth during Q2 FY16 viz-a -viz Q2 FY15

(By 0-10%)	(By 10-20%)	(>20%)
Crude Oil	Capacitors (LT & HT)	ATF
Diesel	Energy Meters	Goods Carriers- M&HCVs
Industrial Gases	Fertilizer	LDO
Motors (HT)	Hydro Electric	Power Transformer
Motors (LT)	LPG	Scooter/Scooterettee
Natural Gas	Lubes	Soya
Other Oils	Motor Starters	SSP
Passenger Carriers - LCVs	Petrol	Total Commercial Vehicles
Passenger Carriers- M&HCVs	Total M&HCVs	
Passenger Cars	Urea	
Polyutherene		
Textile Machinery		
Total LCVs		
Total Passenger Vehicles (PVs)		
Vans		

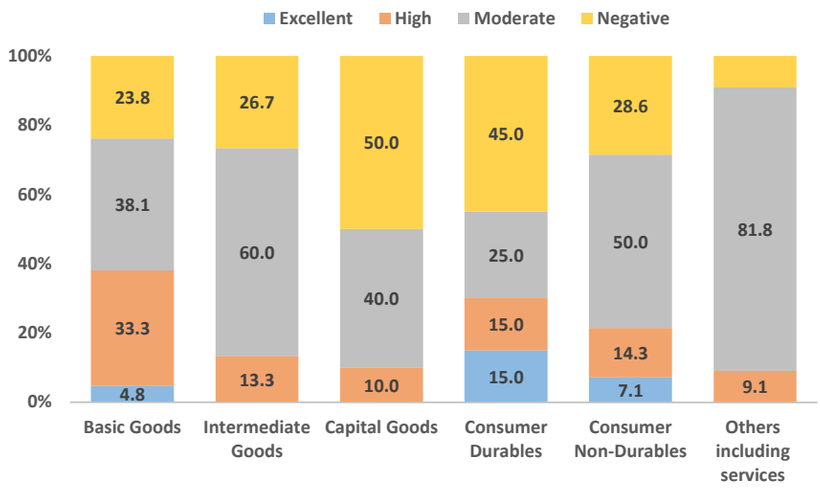
Table 2.2: Sectors which have shown a downward movement in % growth during Q2 FY16 viz –a viz Q2 FY15		
(By 0-10%)	(By 10-20%)	(>20%)
Alcoholic Beverage Circuit Breakers (HT) Circuit Breakers (LT) Coal DAP Distribution Transformer Electricity Goods Carriers - LCVs Imported Oils International Cargo Kerosene Naphta Nuclear power Nylon Tyre Yarn Polyester Filament Yarn Polyester Staple Fibre Refinery Sponge Iron Steel Steel re rollers Tractors Transmission Line Towers	Power Cables - PVC & XLPE Domestic Cargo Motor cycles/Step-Throughs Newsprint Thermal Power Total Two wheelers Utility Vehicles(UVs) Vehicle Industry	Goods Carrier -3 Wheeler's Mopeds Passenger Carrier -3 Wheeler's Rape/Mustard Total Three Wheelers

A further analysis of the use-based classification of sectors reveals that the environment, though improved, is not on smooth course yet and recovery will take some time. A majority of sectors in the producer goods segment (basic, intermediate and capital goods sectors) are still to show some definitive signs of recovery. In the basic and intermediate goods categories, a large number of sectors have reported growth numbers falling in the moderate category. This reflects a low momentum in activity levels, despite the steps taken by the government towards project clearances, simplification of procedures, new investment announcements as well as the 'Make in India' initiative.

Core sector growth would be coming from the capital goods sector, which is an indicator of the actual implementation of the announcements on the ground. Some subsectors in the capital and engineering goods sectors have reported a moderate outlook. This is in line with the previous Survey's forecast of a nascent investment and consumption recovery.

The performance of the consumer durables and non-durables sectors, an indicator of consumer spending, shows some signs of revival, especially in the consumer durables segment. The pickup in the demand for passenger cars and two wheelers indicates that the automobile industry is moving out of a severe slowdown on the back of an ease in interest rates, improved environment and fuel prices that have aided the recovery in the sector. However, overall, the pick-up in consumer demand is still modest.

Figure 2.2: Percentage Distribution of growth across Use-based Classification of sectors Q2 (July-Sept) FY16

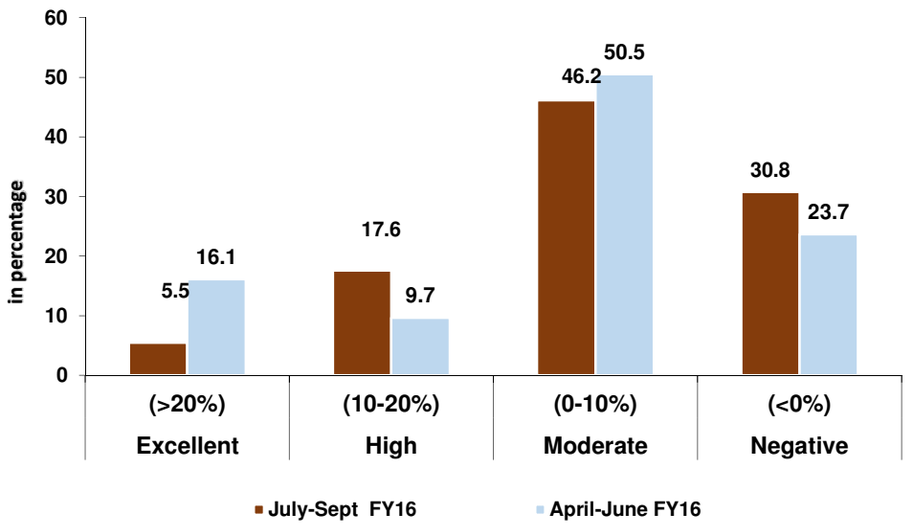


On the services front, most of the sectors have reported moderate growth, further indicating a slow recovery on the back of subdued external and domestic demand and a tempered pick-up in domestic investments. A host of indicators such as rail freight and traffic at ports and foreign tourist arrivals point to a gradual pickup in economic activity, which is likely to gain momentum with the revival in consumer spending..

2.3 Industry growth performance during Q2 FY16 over Q1 FY16

A further analysis of growth trends on a sequential quarter-on-quarter basis also presents mixed growth trends in Q2FY15 as compared to the previous quarter. According to the

Figure 2.3: Comparison of industry performance Q2 FY16 over Q1 FY16

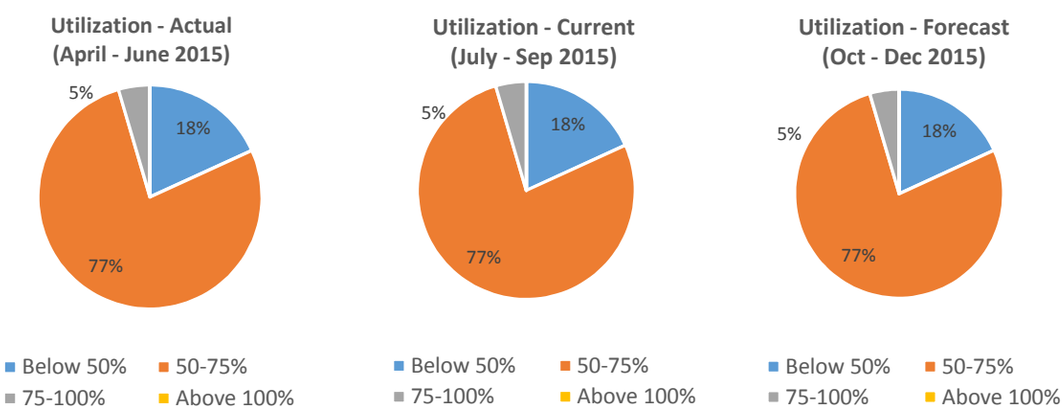


Survey, the percentage of sectors reporting 'excellent' performance in July-Sept FY15 has come down significantly to the tune of 5.5 percent (5 out of 91) as compared to a share of 16.1 percent (15 out of 93) in the previous quarter. On the other hand, the share of high growth sectors have increased significantly to 17.6 percent (16 out of 91) in Q2 (July-Sept) FY16 from 9.7 percent (9 out of 93) in Q1 (April-June) FY16.

The number of sectors recording moderate growth has marginally shrunk to 46.2 percent (42 out of 91 sectors) as compared to 50.4 percent (47 out of 93 sectors) in Q1 FY16. However, the number of sectors recording negative growth have marginally increased to 30.8 percent (28 out of 91 sectors) in Q2 FY16 from 23.7 percent (22 out of 93 sectors) reported in negative category in Q1 FY16 posing questions on the anticipated recovery.

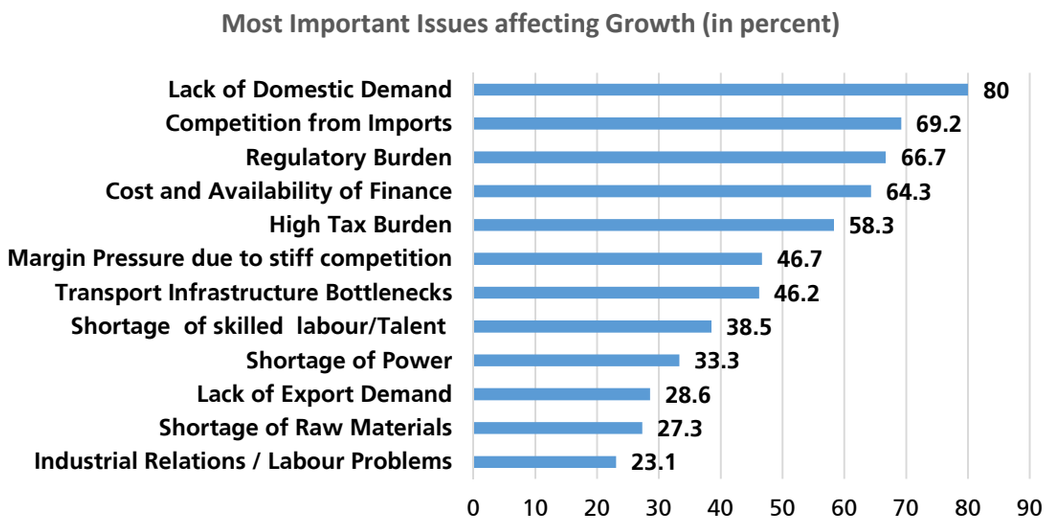
In an indication of recovery to further remain in low gear in the coming quarters, indicators such as capital investment suggest moderate to conservative improvement in investments. Plans for capacity addition are yet to become broad-based. According to the survey responses around 80 percent of the respondents have reported capacity utilizations in the range of 50 to 75 percent for July-September FY16 quarter. With most companies reporting under-utilized capacities as a result of subdued demand and dumping from other countries along with weak corporate balance sheets have resulted in slowdown in investments aimed at adding new capacities further indicating the trend in the capacity utilization to remain same in the next few months. The current scenario poses questions on resumption of the investment cycle and thus immediate revival of jobs.

Figure 2.4: Capacity Utilization trends



On the issues and concerns impacting growth, lack of domestic demand (80%), competition from imports (69.2%), high regulatory burden (66.7%), cost and availability of finance (64.3%), high tax burden (58.3%) have been cited as the most important constraints by more than 50 percent of the respondents. Constraints such as margin pressure due to stiff competition and industrial relations / labour problems also were reported as other pressing issues before the companies.

Figure 2.5: Issues impacting growth



3 Investment outlook for next six months

The Survey responses reveal anticipation of a gradual improvement in the overall business situation in H2 FY16. More than 50 percent of respondents expected an improvement in the overall business situation in the next two quarters, revealed the Survey.

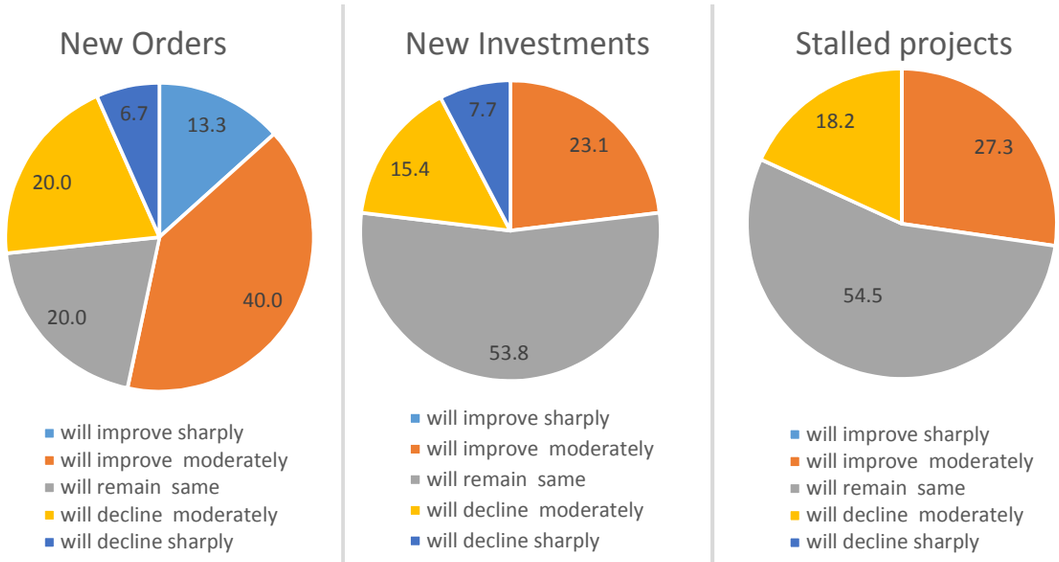
Given that economic resurgence crucially depends on how the infrastructure push shapes up especially after the recent easing of monetary policy and initiatives taken by the government in terms of expeditious project clearances, simplification of procedures and new investment announcements, the Survey responses suggest that manifestation of these indicators will take more time to percolate. 53.8 percent of respondents expect no change in new investments for the next two quarters while 15.4 percent expect the situation to decline somewhat. Only 23.1 percent of the respondents expect moderate improvement in new investments in H2 FY16.

Despite a huge stress on unclogging the stalled projects to promote investments, 54.5 percent of the respondents expected the situation on the stalled projects to remain same, while 18.2 percent expected it to decline moderately and only 27.3 percent expected the situation on stalled projects to improve moderately.

On the pick-up of new orders in the coming quarters, the survey responses presented a divided opinion, 40 percent of the respondents expect moderate improvement in new orders, 20 percent expect the situation to remain same and 20 percent of the respondents expect the situation to decline moderately further indicating no turnaround in the investment cycle.

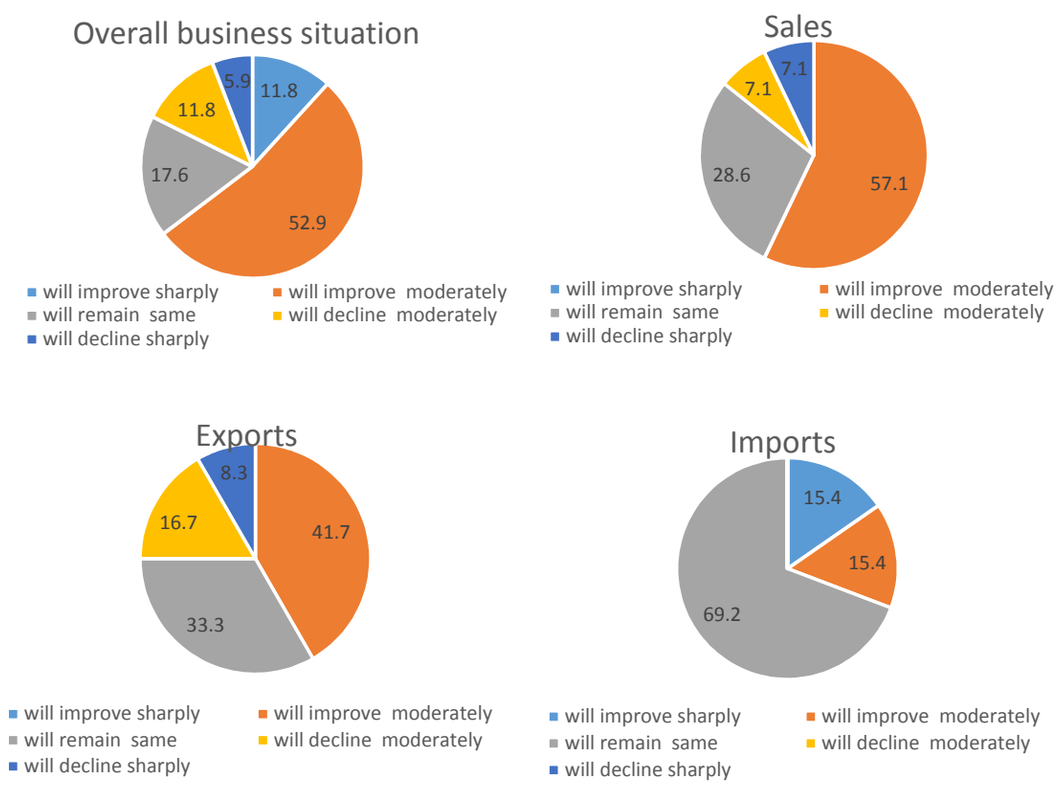
Further, Demand is likely to remain uninspiring in the next few quarters and is unlikely to support the economic revival. A moderate improvement in the economic situation is to come on the back of some progress in sales and exports indicating some pickup in both domestic and global demand.

Figure 3.1: Investment outlook for the next six months



The respondents expect moderate improvement on the sales and exports front. On sales front, while 57 percent of the respondents expect the moderate improvement in the next two quarters while 28.6 percent expect the situation to remain same. On expectations on global environment to provide some support in the coming quarters,

Figure 3.2: Business outlook for the next six months



41.7 percent of respondents expect some improvement in exports front situation while 33.3 percent expect the situation to remain same. Exports have been on the decline for the 10th straight month in September 2015.

On the imports front, a staggering 70 percent the respondents are of the view that the situation will remain the same in the next two quarters. Recently several domestic sectors such as newsprint, rubber industries, steel etc. have been hit by a surge of cheap imports which has further compounded their problems. E.g. the Newsprint manufacturing industry is one example where indiscriminate imports have impacted the industry gravely leading to the closure of domestic manufacturing units though there is demand.

Conclusion

While presenting a mixed picture on the growth trends in Q2FY16, the CII ASCON Industry Survey for the July-September FY16 quarter reveals emergence of some green shoots like improvement in the sales and production of commercial vehicles and healthy excise duty collections signaling an improvement in commercial activity supportive of revival in consumption and investment demand growth in the coming quarters. However, overall, the survey suggests the recovery remains in low gear with growth trends still tilted toward moderate and low growth and suggests taking proactive steps on various fronts to support the recovery and make it broad based.

INDUSTRY SUGGESTIONS

On the back of several measures taken over the past year, India's near-term growth outlook has improved, helped by increased political certainty, several policy actions to bring in investment friendly policies, improved business confidence, lower commodity prices and reduced external vulnerabilities. However, recovery is in low-gear and certain challenges remain to be addressed to make the recovery broad based. To further push the pace of recovery in economic and industrial growth, the respondents to CII ASCON Industry Survey have suggested the following broad measures:

✓ Continued efforts on revival of investments

The revival of economic growth critically hinges on the Government's measures towards higher capital expenditure and revival of projects. Government spending in key infrastructure sectors i.e. power, coal, renewable energy and roads amongst others, along with gradual reduction in the number of stalled projects should support further recovery in the investment cycle.

✓ Need to speed-up reforms

Progress on reforms is important for a sustained 8-10% GDP growth. The respondents in the Survey have unanimously stressed on the need for moving fast on the reforms agenda. While the Government has taken a number of initiatives to revive the economy and the progress is visible in many areas, especially in improving the ease of doing business, some key reforms have been delayed. In particular, a quicker progress on reforms like passing of the GST Bill and LARR (Amendment) Bill, 2015 both of which are pending in the Rajya Sabha, will impart greater certainty to the investors on policy front. Further, steps in relaxing long standing implementation bottlenecks, especially in energy, mining and power sectors, as well as labor market reforms, will be crucial for achieving faster and more inclusive growth.

✓ Incentivize investments

To further incentivize the investments the respondents in the Survey have also

suggested the following:

- Provide 10 year Tax Holiday u/s 80 IA to infrastructure companies.
- Keep Infrastructure sector outside the purview of MAT so that benefit of 80 IA tax holiday truly becomes available to the companies.
- Restore exemption under section 10(23G) which was available till the Assessment Year 2006-07 to enable the Infrastructure Capital Company as well as Infrastructure Capital Fund to mobilize resources in financing the Infrastructure projects.
- Allow 150% deduction of capital expenditure for capital-intensive, infrastructure industries like steel etc.
- Allow deduction u/s 32AC. Keeping in view the intention of the Government to promote investment in plant and machinery, the benefit of investment allowance should be allowed if the new Plant and Machinery has been acquired and installed during the period beginning from 1st April, 2013 and ending on 31st March, 2017.
- Rationalize mining taxes and implement DMF in a calibrated manner.
- Provide higher depreciation rate of 50 per cent in case of retrofitting technologies, which are more energy efficient and environment friendly in order to encourage companies to invest in green technology.
- Reintroduce section 80-IB(8A) of the Income Tax Act to give impetus to indigenous innovation R&D and research ecosystem in India.

✓ Improving Infrastructure and Power sector

Infrastructure and power sector reforms are a priority to boost investments and provide a fillip to growth in economy and industry. To boost the power sector growth, the respondents in the survey have stressed on various steps such as – addressing issues related to fuel supply risks, timely implementation of various measures being initiated to improve domestic coal supply, reduce uncertainty towards domestic gas availability. Simultaneously, efforts will have to be stepped up to generate large quantity of power from hydro, nuclear, solar and wind sources.

✓ Address issue of delayed payments

Substantial amount of funds are locked in claims with various Government Ministries/ PSUs and have remained unpaid despite decision of Dispute Resolution Body (DRB), Arbitral awards and High Court judgments in favour of contractors. While the Government has recently amended the Arbitration and Conciliation Act, 1996 making Arbitral awards time-bound and binding, it is important to assess

the execution on ground.

Anecdotal evidence suggests that on an average it takes more than 6 years to settle the claims. This is affecting the liquidity of contractors & developers and has severely constrained their ability to pursue upcoming EPC projects as well as the ability to invest equity in upcoming BOT projects. Just to substantiate around 76% of Road projects and 55% Power projects have faced cost overruns in the range of 55 % -165%.

To further streamline the process there is a need to create an online receivables financing platform and provide incentives to large enterprises for making timely payments for delayed payments.

✓ Exit Provisions

Allow complete exit for the developers immediately after COD (commercial operations date) which would release much needed equity to plough back into other infrastructure projects. Though, this has been done recently for the Roads & Highways sector but should be replicated across infrastructure sectors.

✓ Long-term Financing

Paucity of infrastructure finance is amongst the long-festering problems in this sector. While, the proposed 5/25 scheme is indeed laudable however it is imperative that alternative long-term financing models are devised. Hence, some options for financing infrastructure such as developing an efficient corporate debt market, developing municipal bonds and further strengthening of other alternate sources of finance like REITS, InvITs, and IDF deserve special attention.

✓ Rebooting the PPP model

Government should continue with the proposed 'plug-and-play' model for infrastructure projects, with all regulatory clearances in place before awarding projects. Plug and play type, world-class infrastructure, at national and regional levels, in manufacturing zones and along industrial corridors, should be created on PPP basis.

✓ Address Land Issues

A well-laid down and simplified policy and procedure for acquisition of land is

desirable from the view point of all the stakeholders as delay in acquisition and resistance of land owners could become major deterrents for investments in the economy. A reform in the land acquisition procedures should be the immediate priority for the government and it is essential to ensure that the land acquisition Bill gets implemented at the earliest expressed the Survey respondents.

Other suggestions to address the issue of land availability for industry included:–

- Allocating 25% of the land available at all Industrial Corridors for MSMEs at a different rate slabs and acquiring models.
- Creating land banks at state level to facilitate smooth allocation of land to start-ups and micro enterprises.
- Consider Allotment of vacant and disused premises in industrial estates to new or existing enterprises by state governments.

✓ Address the issue of cheap imports

Continued surge of cheaper imports has led to under-utilisation of capacities. There is a need to review the existing FTAs and take steps to ensure that cheap imports do not kill the existing domestic industry. It should be ensured that for any investment by Indian company, first preference of procurement should be given to Indian Companies, which is followed in countries like Malaysia. This would also help in ensuring demand creation and not lead to too much cannibalization of the growing domestic market till the economy recovers.

✓ Boost Exports

To boost exports in this challenging economic environment, the respondents have sought for an immediate need for reintroduction of Interest Subvention, doing away with the levy of MAT and Dividend Distribution Tax (DDT) and restoration of the SEZ policy to its original form to attract domestic and foreign investment in SEZs; Identify products which show good potential in exports of the country and in which world imports are also increasing and given further push to buttress India's exports; Expansion of MEIS benefits and reducing procedural complexities and paper work to reduce transaction costs.

In the medium to long term, there is a need to work towards lowering transaction costs for exports along with efficient processes and taxation to help integrate India into global supply chains. Drastic improvement in road and railways connectivity to ports by expediting the work on the dedicated freight corridors should be a top priority for improving India's export competitiveness.

For strengthening competitiveness of products in the global market, the respondents in the survey have also suggested to focus more on standards, including the

development of a strong standards regime in India as non-tariff based Technical Barriers to Trade (TBT) and SPS measures are increasingly defining the flow of goods and services across boundaries.

✓ Need for an effective dispute resolution mechanism

Firms are also looking forward to a faster settlement of disputes. It is extremely important that a robust and credible regulatory mechanism that is autonomous, accountable & independent in functioning, free from political & bureaucratic controls is created.

✓ Ensure financial strength of Banking Sector

There has been a gradual increase in non-performing loans in recent years and resulted in sustained pressure in banks asset quality. There is an urgent need for banks to reduce their stressed assets, given the impact on liquidity and capital in the sector.

To safeguard financial health in the presence of rising corporate and banking sector strain, increasing provisioning, strengthening monitoring of corporate vulnerabilities and debt recovery by banks to be further encouraged. Taking steps towards bringing better coordination between different forums dealing with insolvencies to support restructuring or closure of a business happens in a defined timeframe will also be vital. Streamlining procedures at every stage to reduce recovery times in (Debt Recovery Tribunals) DRTs and expediting enactment of the new comprehensive Bankruptcy Code wil be helpful measures.

✓ Making Agriculture a sustainable engine for growth

The rural economy continues to lag behind in terms of widening of income and lifestyle gaps with urban centers, a proactive role by the Government and the private sector towards promoting PPP in agriculture to harness collective power of all stakeholders, creation of employment opportunities in the non-farm segment of the rural sector through food processing, construction etc. enhancing of capital spending by the states, given that they are now recipients of higher resources from the Centre, would support in the creation of demand.

APPENDIX A

Sample coverage and methodology

The CII ASCON Industry Survey, which tracks the growth of different industrial and services sectors of the economy, is based on the feedback collected from industry associations affiliated to CII. The industry associations encompass wide range of sectors from the domain of small, medium and large enterprises spread over the length and breadth of the country. Further, the Survey has enumerated responses from both public and private sectors. The companies covered in the Survey represent a wide spectrum of sectors including basic goods, intermediate goods, capital goods, consumer durables and non-durables and services sector. In most of the cases, these account for approximately 70% of the total industry output in the respective sectors.

The analysis is based on two quarters: July – September FY16 and April –June FY16. The results of each quarter are compared with their corresponding values of previous year. While the analysis for April –June FY16 is based on 112 sectoral responses, that of July – September is based on 93 responses. The sample covers all sectors of the use-based classification and their summary is described in Table A.1

Table A1: Sample Coverage: Use-based classification of sectors

Sectors	July – September FY 16	April – June FY 16
Basic Goods	21	20
Intermediate Goods	15	19
Capital Goods	10	4
Consumer Durables	20	26
Consumer non-durables	19	18
Other including services	6	6
Total	**91**	**93**

Based on varying rates of growth of industrial production, the responses have been collected in the following four broad categories: (i) 'Excellent' (growth in excess of 20%), (ii) 'High' (growth in the range of 10-20%), (iii) 'Moderate' (growth in the range of 0-10%, and (iv) 'Negative' (growth less than 0%).

APPENDIX B

Distribution of total sample sectors over different growth ranges

Table B1: Production (July – September FY16 over FY15)

Excellent	High	Moderate	Negative
Goods Carriers-M&HCVs Passenger Carriers - M&HCVs Soya Total M&HCVs	AIDC Products ATF Ball & Roller Bearings Express Industry Fertilizer Glass Products Imported Oils LDO LPG Motor Starters Other Oils Petrol Polyutherene Scooter/Scooterettee SSP Total Commercial Vehicles	Air Cargo Transportation Alcoholic Beverage Capacitors (LT & HT) Cement Circuit Breakers (HT) Circuit Breakers (LT) Coal Construction Crude Oil Cutting Tools Diesel Domestic Cargo Electricity Energy Meters Foreign Tourist Arrivals Hydro Electric Industrial Gases International Cargo Lubes Machine Tools MG Variety / Poster Motors (LT) Natural Gas Nuclear power Packaging Paper / Board Passenger Carriers - LCVs Passenger Cars Polyester Filament Yarn Polyester Staple Fibre Power Cables - PVC & XLPE Railways Refinery Specialty Paper Steel re rollers Sunflower Textile Machinery Total Edible Oils Total Passenger Vehicles (PVs) Urea Utility Vehicles(UVs) Vehicle Industry Writing & Printing Paper	DAP Distribution Transformer Fan Foundry Goods Carriers -3 Wheeler's Goods Carriers - LCVs Groundnut Oil Kerosene Mopeds Motorcycles/Step-Throughs Motors (HT) Naphta Newsprint Nylon Filament Yarn Nylon Tyre Yarn Passenger Carrier –LCV's Power Transformer Rape/Mustard Sponge Iron Steel Sugar Machinery Tea Thermal Electricity Total LCVs Total Three Wheelers Total Two wheelers Tractors Transmission Line Towers Vans

Table B2: Sales (July – September FY16 over FY15)

Excellent	High	Moderate	Negative
Goods Carriers - M&HCVs Newsprint Passenger Carriers M&HCVs Total M&HCVs	Ball & Roller Bearings Glass Products Passenger Cars Scooter/Scooterettee Total Commercial Vehicles Urea	Automation Construction Equipment Machinery Cutting Tools DAP Freight Earnings Industrial Gases Machine Tools NKP/NP Nylon Filament Yarn Nylon Tyre Yarn Passenger Carriers SSP Textile Machinery Total Passenger Vehicles (PVs) Tourism (Earnings)	MOP Foundry Goods Carriers -3 Wheeler's Goods Carriers - LCVs Grand Total of All Categories Mopeds Motor cycles Passenger Carrier-LCV's Polyester Filament Yarn Polyester Staple Fiber Total LCVs Total Three Wheelers Total Two wheelers Tractors Utility Vehicles(UVs) Vans

Table B3: Exports (July – September FY16 over FY15)

Excellent	High	Moderate	Negative
Ball & Roller Bearings Goods Carriers Mopeds Newsprint Utility Vehicles(UVs)	Castor Seed Meal Glass Products Goods Carriers Passenger Carrier Scooter/Scooterettee Total Commercial Vehicles Total LCVs Total Three Wheelers	Goods Carrier Grand Total of All Categories Industrial Gas Plant Machine Tools Motor cycles/Step-Throughs Polyurethane Total M&HCVs Total Passenger Vehicles (PVs) Total Two wheelers Tractor Vans	Cutting Tools Foundry Ground Nut Meal Passenger Carriers Passenger Carriers Passenger Cars Rapeseed Meal Ricebran Ext. # Soybean Meal Textile Machinery Total Oilmeals

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 1895, India's premier business association has over 7900 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 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.

In its 120th year of service to the nation, the CII theme of **"Build India- Invest in Development, A Shared Responsibility"**, reiterates Industry's role and responsibility as a partner in national development. The focus is on four key enablers: Facilitating Growth and Competitiveness, Promoting Infrastructure Investments, Developing Human Capital, and Encouraging Social Development.

With 66 offices, including 9 Centres of Excellence, in India, and 8 overseas offices in Australia, Bahrain, 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.

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