Build India – Invest in Development
A Shared Responsibility

Confederation of Indian Industry

ASCON Industry Survey

February 2016

Contents

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EXECUTIVE SUMMARY

The CII ASCON Survey results for the October – December FY16 quarter indicate a tempering and moderation of the rate of growth in the third quarter of the current year as compared to the year ago period. Notwithstanding, deeper analysis suggests that despite a continued weakness in some pockets, on an overall basis, the economy is on a modest growth path with sentiments and prospects more positive than before.

The Survey reveals the emergence of some green shoots like an improvement in the sales and production of commercial vehicles and a healthy collection of excise duties signaling an improvement in commercial activity supportive of a revival in manufacturing due to increased consumption in the coming quarters. Overall, the Survey suggests that the economy remains in low gear.

The Survey classifies the growth trends across four broad categories, namely 'Excellent' (>20%), 'High' (10-20%), Moderate (0-10%) and 'Low' (<0%).

According to the Survey, out of the responses received from 92 sectors, the share of the sectors recording 'Excellent' growth of >20 percent in October-December FY16 quarter has come down to 7.6 percent (7 out of 92) of the respondents as against 10.5 percent (10 out of 95) recorded in the same quarter previous year. At the same time, the share of sectors witnessing a high growth rate of 10 to 20 percent has moderated to 6.5 percent (6 out of 92) in the October-December FY16 from 16.8 percent (16 out of 95) during the corresponding period a year ago.

A significant rise has been witnessed in the share of sectors reporting 'Moderate' growth which rose to 55.4 percent (51 out of 92) of the respondents in Q3 FY16 as compared to 44.2 percent (42 out of 95) recorded in the same quarter last year. What is of some concern is a slight increase in the share of sectors recording 'Low' growth in Q3, inching up to 30.4 percent (28 out of 92) of respondents as against 28.4 percent (27 out of 95) recorded in the same quarter last year. Overall the Survey results indicate towards a moderate course of economic growth.

A further analysis of growth trends on a sequential quarter-on-quarter basis also presents mixed growth trends in Q3FY16 as compared to the previous quarter. According to the Survey, while there has been some improvement in the percentage of sectors reporting 'Excellent' performance in Q3 FY16 which has inched up to 7.6 percent (7 out of 92) as compared to a share of 5.5 percent (5 out of 91) in Q2 (July-September) FY16, the

share of 'High' growth sectors has significantly come down to 6.5 percent (6 out of 92) in Q3 FY16 from 17.6 percent (16 out of 91) in the previous quarter.

On the capacity utilization trends an indicator of demand acceleration in the economy reveals that the capacity utilization remained muted in (October –December FY16 quarter the same as the July –September 2015 quarter). According to the Survey results, around 77.3 percent of the respondents have reported capacity utilizations in the range of 50 to 75 percent for October –December FY16 quarter the same as the July –September 2015 quarter. However, on the expected utilization in the coming quarter, the Survey results indicate an expectation of improvement in capacity utilization. 31 percent of the respondents expect the capacity utilization to be in the range of 75-100 percent as against 5 percent reported in the previous quarters, whereas 46 percent of the respondents expect it to be in the range of 50-75 percent. The expected capacity utilization trends are starkly optimistic compared to previous quarters and indicate towards a meaningful recovery in capital investments in the coming quarters.

In terms of the industry outlook for the next six months also, the Survey responses reveal expectation of a gradual improvement in the overall business sentiment in the next six months. More than 50 percent of respondents expect improvement in the overall business situation in the next two quarters. 53.3 percent of respondents expect moderate improvement in new investments in the first half of 2016. On the stalled projects front, 46.2 percent of the respondents expect the situation to improve moderately in the coming two quarters.

Another positive change basis evidence from previous surveys is that firms are optimistic about demand. 60 percent of the respondents expect moderate improvement in the pick-up of new orders in the coming quarters as against 40 percent recorded in the previous survey, a sign that the prolonged deterioration in domestic demand conditions may be coming to an end. The Survey responses suggest that initiatives taken by the Government in the last one and a half year in terms of expeditious project clearances, simplification of procedures and ease of doing business are expected to lift the investment scenario going forward.

On the demand side, the respondents have evinced hopes of moderate improvement in the economic situation to emerge on the back of a pickup in both domestic and global demand. Hopes of a recovery in domestic demand conditions in the coming quarters has gathered strength particularly owing to the imminent payouts as a result of the Seventh Central Pay Commission next fiscal.

Going forward, sustained growth would be conditional on improvement in domestic demand and investment revival. Given that the global demand is likely to remain weak, the Government will have to focus more on internal drivers of growth to augment economic growth. 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, putting strong focus on infrastructure growth, speedy implementation of infrastructural projects and de-bottlenecking stalled projects

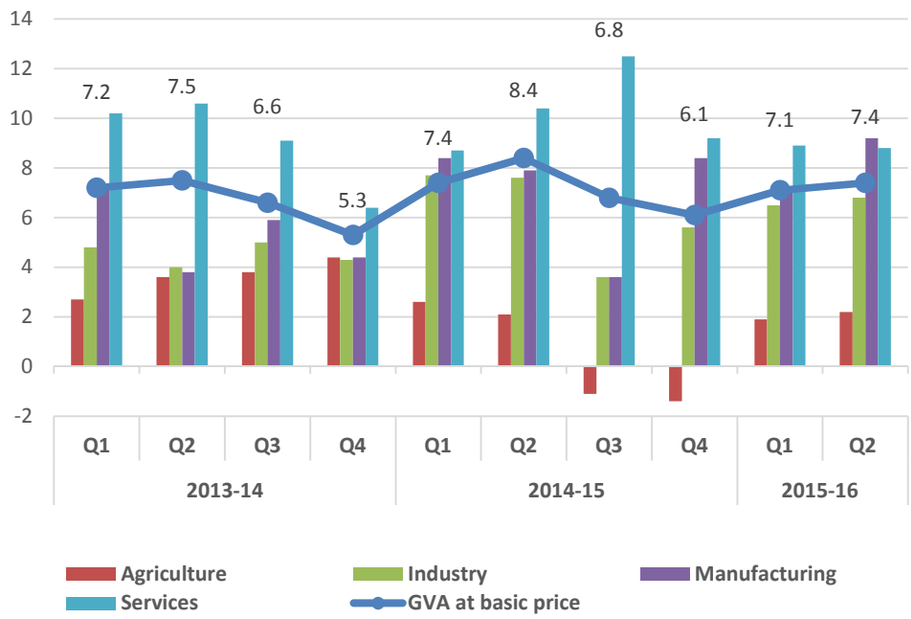
For supporting the investment cycle, industry recommends measures such as bringing down the corporate tax rate to 23% (all inclusive), abolition of MAT in view of removal of all incentives or alternatively, bringing down the rate to 10%, reducing DDT rate from 15% to 10%, suitably amending Section 80-IA so as to make it amply clear that the upgradation of existing infrastructure is also eligible for the benefit of Section 80IA, so that there is no ambiguity with regard to claim of Section 80 IA. Providing of accelerated depreciation on plant and machinery and reintroduction of section 80-IB(8A) of the Income Tax Act to give impetus to indigenous innovation R&D and the research ecosystem in India in the upcoming Budget are additional measures recommended.

The Survey respondents have emphasized the need for intensive action on reforms related to trade and the business environment and have stressed on improving the 'Ease of Doing Business' indicators with a focus on removing the massive transaction costs by enabling efficient processes and a conducive taxation system to help integrate India into global supply chains. These measures, coupled with sustaining 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.

ECONOMIC SITUATION

While forecasting India's economic growth for the coming three years, both the World Bank and the International Monetary Fund (IMF) have indicated that India will emerge as the fastest growing economy in the world. On the domestic front, provisional estimates of gross value added (GVA) at basic prices for Q2 of 2015-16 rose on the back of acceleration in industrial activity. Value added in agriculture and allied activities picked up on the modest increase in kharif output and timely policy interventions to stem the effects of the deficient south-west monsoon.

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

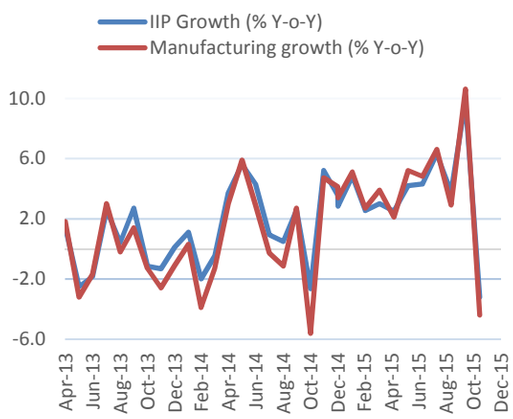


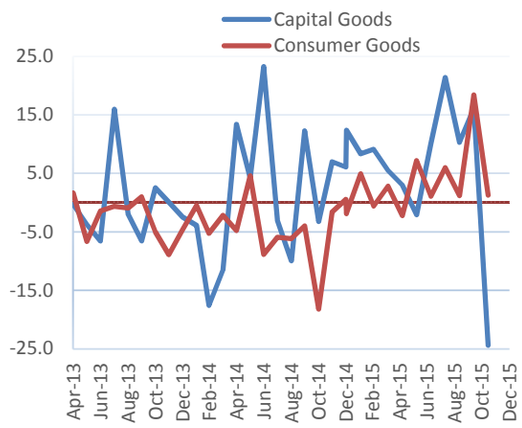
INDIA'S GDP PROJECTIONS BY OTHER MAJOR FINANCIAL INSTITUTIONS

- INTERNATIONAL MONETARY FUND: **7.3% in the FY16 and 7.5% in FY17**
- MORGAN STANLEY: **GDP growth rate to accelerate gradually**
- WORLD BANK: **7.9% in the next two years**
- ASIAN DEVELOPMENT BANK: **7.8% in 2016**
- NOMURA: **GDP (market prices) growth to rise to 7.8% in 2016**

Although there has been recovery in real GDP growth and India is currently one of the fastest growing economies in the world, investment sentiment remains muted. This is partly due to the global scenario where excess capacity in the manufacturing sector has become a reality that will remain for some time.

On the investment front, capital goods output – a recognized barometer of investment - has witnessed positive growth in 10 out of 12 months through November, suggesting that enhanced government spending has started to translate to growth on the ground. However, on a cumulative basis, the sector registered a growth of 4.7 percent during April – November 2015 as against 4.9 percent over the year ago period.





The pace of activity remains mixed across sectors and persistence of stalled projects remains a concern. According to the latest data released by CMIE, the quantum of stalled projects as a percentage of those under implementation remains flat at 11.8 percent in the December quarter, the same as the September quarter. Manufacturing and power together continue to account for 78% of the stalled projects. On the other hand, new projects proposed in the first three quarters of 2015-16 dropped almost to 33 percent to Rs.5.2 trillion from Rs.7.8 trillion worth of projects announced in the first three quarters of 2014-15.

Confirming the subdued sentiment prevailing across the corporate sector, investment proposals to set up new capacities declined substantially in the quarter ended December 2015. Slow pickup in demand for goods and services, low capacity utilization and weak corporate balance sheets are keeping promoters from announcing new capacity additions

The high rate of stalled private projects is consistent with the recent fall in private capital expenditure, as reported in the National Accounts. The Mid-Year Economic Review 2015 released by the Finance Ministry in December showed that aggregate capital expenditure in H1FY16 at a consolidated level increased by 0.5% of GDP while revenue expenditure witnessed a reduction of 0.3% of GDP. Further disaggregation reveals an increase in capex occurred both at the Centre and State level, with the former contributing 60% and the latter 40%. It remains to be seen whether growing public investment can crowd

in private investment on a sustained basis, despite the still low capacity utilization.

Further, while urban consumption is showing signs of a pick-up in some areas such as passenger vehicles sales, rural demand has been weakened by two consecutive deficient monsoons and slowing construction activity.

Consequently, credit–off take to the industry remained weak. Non-food credit growth in Nov-15 improved marginally to 8.8% YoY vs. 8.3% in October, largely driven by personal loans. Lower inflation, substitution towards cheaper sources of non-bank funding, subdued growth in infrastructure sector (which accounts for 1/3rd of industry credit) has kept credit demand muted this fiscal even as appetite of banks to fund projects has remained low. Nonetheless, sustained weakness in industrial credit appears to be masking a gradual improvement in industrial growth as has been highlighted by other lead indicators such as sales of commercial vehicles.

India's fiscal deficit during April-Nov FY16 stood at 87.0% of Budget estimates (BE) as compared to 98.9% of BE in FY15 on the back of buoyancy in non-tax revenues and indirect tax collections. The buoyancy in non-tax revenues reflects staggered receipts from spectrum auctions, and higher dividend transfers from RBI and the public sector. On the other hand, gross tax revenue growth clocked 20.8 % YoY (vs. 6.5% in FY15) led by buoyancy in indirect taxes mainly excise duties, which indirectly indicates an increase in manufacturing. Excise and custom collections are outperforming budgeted targets while growth in services tax collections remains on track with respect to budgeted target. The pick-up in excise collections may also be due to the duty increase on diesel and petrol and imposition of clean energy cess instead of an uptick in manufacturing. This needs to be analysed further in depth. Robust indirect tax collections and non-tax revenues have created space for government to undertake a capex push to support growth amidst sluggishness in private investment.

On the reforms front, while there was stability in the Government's decision making and improvement in the India's Ease of Doing Business ranking by the World Bank, key major reforms related to land acquisition, GST and revamped labour laws which would improve the industrial ecosystem and propel growth remained unresolved.

On the external sector front, tepid global demand, crash in the key commodity prices and a volatile currency market continued to weigh upon India's exports. India's merchandise exports contracted for the 13th month in a row in December indicative of the persisting weakness in global trade shrinking by 14.8 percent from a year ago. The devaluation of the Renminbi is further expected to exert pressure on India's exports to that country. Despite all this, India has thus far been able to withstand the global headwinds and its growth performance in 2015 was certainly a bright spot in a muted global economic landscape.

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 October- December (estimated) (Q3) FY16 against the year ago period and against the previous quarter, October- December (Q3) FY15. The Survey was conducted over mid-December 2015 till mid-January 2016.

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 October - December FY16 is based on 92 sectoral responses that of July –September FY15 is based on 95 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) 'Low' (growth less than 0%).

2.2 Industry growth performance during October- December FY16 over October- December FY15

The results of the latest CII ASCON Industry Survey for October- December FY16 reveals a slight tempering and moderation in the production growth trends in the current quarter over the year ago period suggesting that the environment is not on smooth course yet.

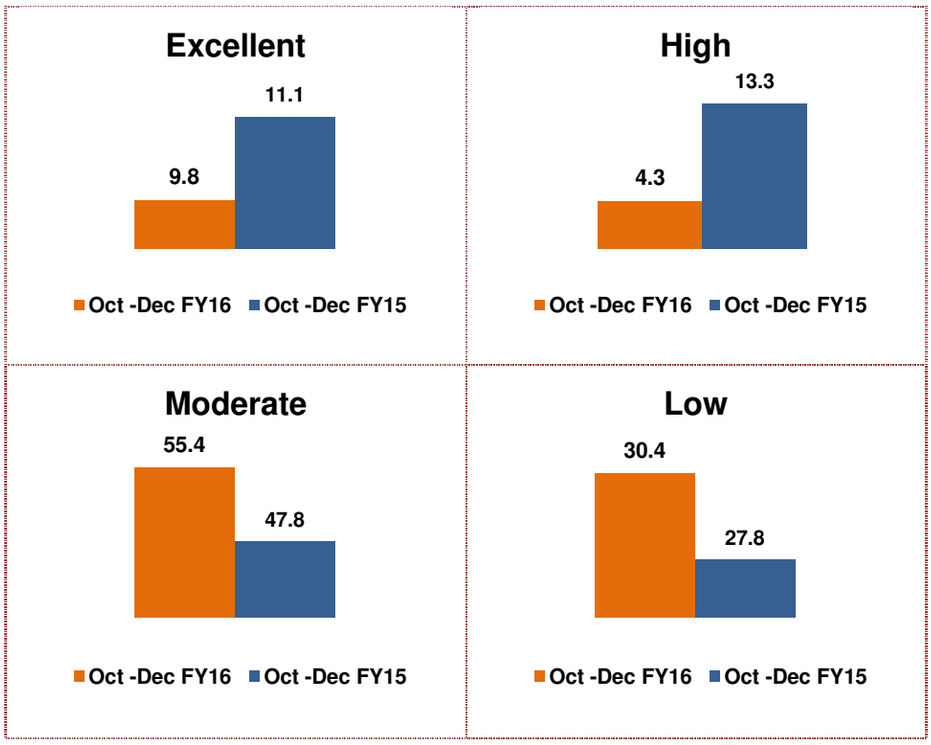
This is borne out of the fact that out of the 92 sectors surveyed, the share of the sectors recording 'Excellent' growth of >20 percent in October-December FY16 quarter has come down to 7.6 percent (7 out of 92) as against 10.5 percent (10 out of 95) recorded in the same quarter previous year.

At the same time, the share of sectors witnessing 'High' growth rate of 10 to 20 percent has moderated to 6.5 percent (6 out of 92) in the October- December FY16 from 16.8

percent (16 out of 95) during the corresponding period a year ago. A significant rise has been witnessed in the share of sectors reporting moderate growth which rose to 55.4 percent (51 out of 92) in Q3 FY16 as compared to 44.2 percent (42 out of 95) recorded in the same quarter last year suggesting a shift of sectors from 'Excellent' and 'High' growth category to the 'Moderate' growth category.

What is disconcerting is a slight increase in the share of sectors recording 'Low' growth in Q3, inching up to 30.4 percent (28 out of 92) as against 28.4 percent (27 out of 95) recorded in the same quarter last year.

Figure 2.1: Industry Performance Q3 FY16 over Q3 FY15 (in %)



Aggregating the sectors on the basis of positive growth and negative growth also reveals a marginal slide in sectoral growth performance as compared to year ago period. Around 70 percent of sectors recorded positive growth in Q3 FY16 as compared to 71.6 percent in Q3 FY15. Overall the survey reveals that the growth trends are still concentrated in the 'Moderate' category of (0-10%).

While factors like lack of domestic demand, low capacity utilization, subdued global demand have continued to impact the expansion/purchase plans of producers/consumers who have either reduced orders or deferred their plans, fewer working days due to Diwali along with disruptive impact of floods in south India also affected the output in the current quarter.

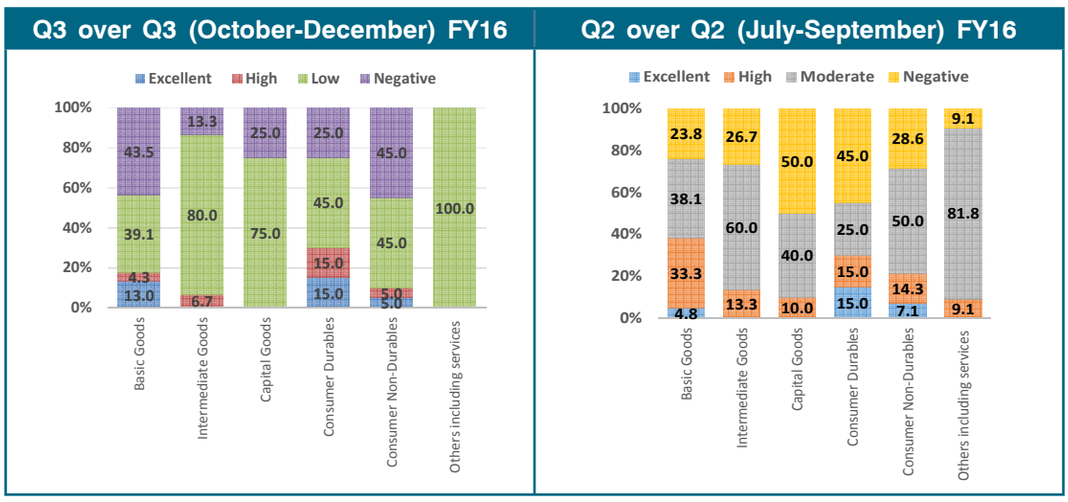
Sectors which have shown a positive movement in % growth during Q3 FY16 viz-a -viz Q3 FY15		
(Up by 0-10%)	**(Up by 10-20%)**	**(Up by >20%)**
Alcoholic Beverage	Capacitors (LT & HT)	DAP
Industrial Gases	Fertilizer	Iron Ore
Motor cycles/Step-throughs	Forgings	Light Diesel Oil
Motor Starters	Goods Carriers (LCVs)	Power Transformer
Motors (HT)	Imported Oils	Vans
Natural Gas	Lubes	
Nuclear	MG Variety / Poster	
Passenger Carriers (LCVs)	Motors (LT)	
Polyester Filament Yarn	Total LCVs	
Polyester Staple Fibre	Tractors	
Specialty Paper	Urea	
Sponge Iron	Utility Vehicles(UVs)	
Textile Machinery		
Total Commercial Vehicles		
Total Passenger Vehicles (PVs)		
Transmission Line Towers		
Writing & Printing Paper		

Sectors which have shown a downward movement in % growth during Q3 FY16 viz –a viz Q3 FY15		
(Down by 0-10%)	**(Down by 10-20%)**	**(Down by >20%)**
Air Cargo Transportation	ATF	Goods Carriers (M&HCVs)
Ball & Roller Bearings	Coal	Newsprint
Cement	Distribution Transformer	NP/NPK
Circuit Breakers (HT)	Energy Meters	Nylon Filament Yarn
Circuit Breakers (LT)	Goods Carrier (3 Wheelers)	Passenger Carrier (3 Wheelers)
Crude Oil	Groundnut Oil	Passenger Carriers (M&HCVs)
Diesel	Lignite	Rape/Mustard
Domestic Cargo	Mopeds	Relay/ Control Panel
Electricity	Other Oil	Sugar
Foreign Tourist Arrivals	Power Cables - PVC & XLPE	Sunflower
Hydro Electric	Scooter/Scooterettee	Total M&HCVs
International Cargo	SSP	Total Three Wheelers
Kerosene		
Limestone		
LPG		
Machine Tools		
Naphtha		
Nylon Tyre Yarn		
Packaging Paper / Board		
Passenger Cars		
Petrol		
Petroleum Refinery		
Railways		
Soya		
Steel		
Steel re rollers		
Thermal		
Total Two wheelers		

A detailed sectoral analysis basis use-based classification of sectors reveals mixed growth trends. A majority of sectors in the producer goods segment (basic, intermediate and capital goods sectors) are still to show some definitive signs of recovery. The current trends reflects a low momentum in activity, despite the steps taken by the Government towards project clearances, simplification of procedures, new investment announcements as well as ease of doing business. The subdued outlook can also be attributed to weak domestic demand on account of sluggish infrastructure and construction sector growth.

In the basic and intermediate goods categories, a large number of sectors have reported growth numbers falling in the 'Moderate' category. This along with sectoral issues such as dumping of steel and low plant load factor in the electricity sector and poor financial conditions of SEBs have weighed on growth in this category. Reforms to remove structural bottlenecks, helping the Discoms to recover from financial distress and Government investment in critical core sector projects should allow a faster recovery in some of the ailing sectors.

Figure 2.2: Percentage Distribution of growth across Use-based Classification of sectors



The Capital Goods sector, which is the bellwether for actual implementation of the announcements on the ground has also shown mixed trends. The subsectors in the capital and engineering goods sectors (like machine tools, textile machinery, earth moving and construction equipment, distribution and power equipment, etc.) have reported moderate growth in the current quarter. More importantly, however, is the moderate growth seen against the backdrop of muted growth registered in most of these segments for the past two years. In balance, therefore, there is an overall positive growth signal and testimony to some uptick in the new orders on the investment front backed by increased government spending.

The performance of the consumer durables and non-durables sectors, an indicator of consumer spending, has also not revealed any definitive signs of recovery in consumption demand, especially in the consumer durables segment. The survey results further confirm that the consumption recovery this year has been one-legged with only the urban side holding up. Rural consumption demand has suffered due to two consecutive monsoon

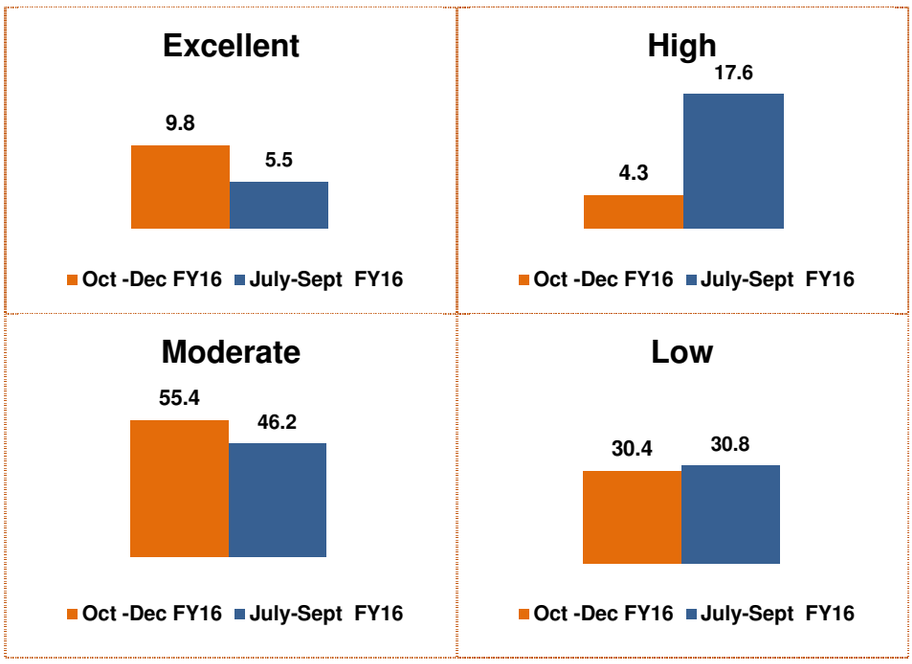
failures. Consumer goods with urban linkages such as automobiles are doing well, while those with rural linkages (tractors, two-wheelers) remain subdued. The slide in exports has also acted as a drag on the economic sectors.

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. Construction activity is weakening as reflected in low demand for cement and the large inventory of unsold residential houses. This could also be due to the monitoring of black money aspect by reducing the cash component of transactions. Rising public expenditure on roads, ports and eventually railways could, however, provide some boost to construction going forward. Lead indicators relating to freight and passenger traffic are mixed. 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 both domestic and global demand.

2.3 Industry growth performance during Q3 FY16 over Q2 FY16

A further analysis of growth trends on a sequential quarter-on-quarter basis also presents mixed growth trends in Q3FY16 as compared to the previous quarter. According to the Survey, while there has been some improvement in the percentage of sectors reporting 'excellent' performance in Q3 FY16 which has inched up to 7.6 percent (7 out of 92) of as compared to a share of 5.5 percent (5 out of 91) in Q2 (July-September) FY16, the share of 'High' growth sectors has significantly come down to 6.5 percent (6 out of 92) in Q3 FY16 from 17.6 percent (16 out of 91) in the previous quarter. On the other hand, the number of sectors recording 'Moderate' growth has increased to 55.4 percent (51

Figure 2.3: Industry performance Q3 FY16 over Q2 FY16 (in %)



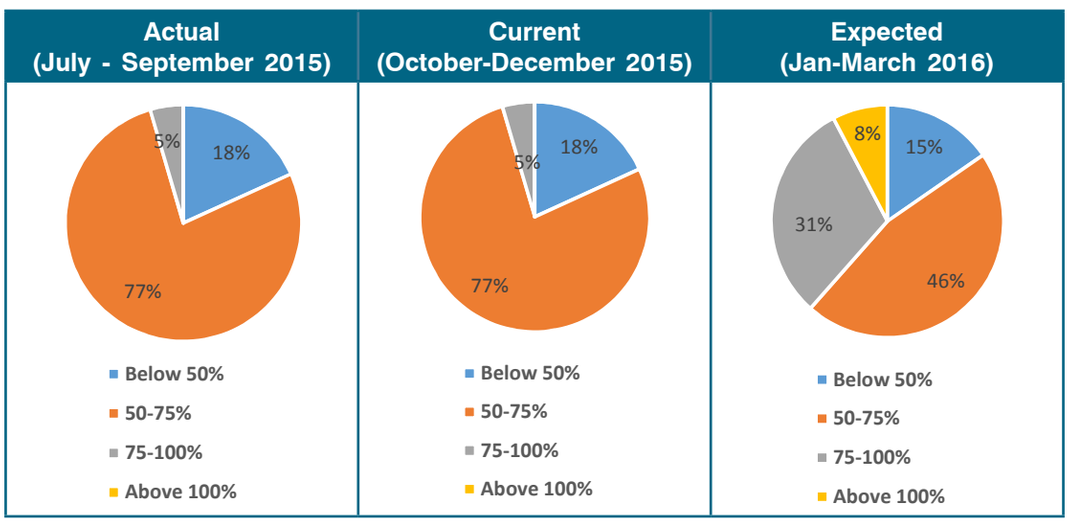
out of 92 sectors) as compared to 46.2 percent (42 out of 91 sectors) in Q2 FY16. The number of sectors recording 'Low' growth has remained at the same level, with 30.8 percent (28 out of 92 sectors) in Q3 FY16 as against 30.4 percent (28 out of 91 sectors) reported in the Low category in Q2 FY16.This clearly signals towards the movement of sectors from 'High' growth category to 'Excellent' and 'Moderate' categories.

Overall, the current trends reveal that majority of the sectors are still continuing to witness moderate growth trends with excellent and high growth limited only to some sectors. This further confirms that the growth remains in low gear and would take some time before the revival becomes broad based.

Capacity Utilization

On the capacity utilization trends an indicator of demand acceleration in the economy reveals that the capacity utilization remained muted in (October –December FY16 quarter the same as the July –September 2015 quarter). A host of factors like the slow pickup in demand for goods and services, decline in commodity prices, increasing imports and declining exports are impacting the utilization levels, revealed the Survey. Along with this, weak corporate balance sheets and concentration on commissioning of ongoing projects are keeping promoters from announcing new capacity additions. According to the Survey, around 77.3 percent of the respondents have reported capacity utilizations in the range of 50 to 75 percent for October–December FY16 quarter the same as the last quarter (figure 2.4). However, on the expected utilization in the coming quarter, the Survey results indicate towards improvements in capacity utilization. According to survey 31 percent of the respondents expect the capacity utilization to be in the range of 75-100 percent as against 5 percent reported in the previous quarters, whereas 46 percent of the respondents expect it to be in the range of 50-75 percent. The expected capacity utilization trends are starkly optimistic compared to the previous quarters and indicate towards a meaningful recovery in capital investments in the coming quarters.

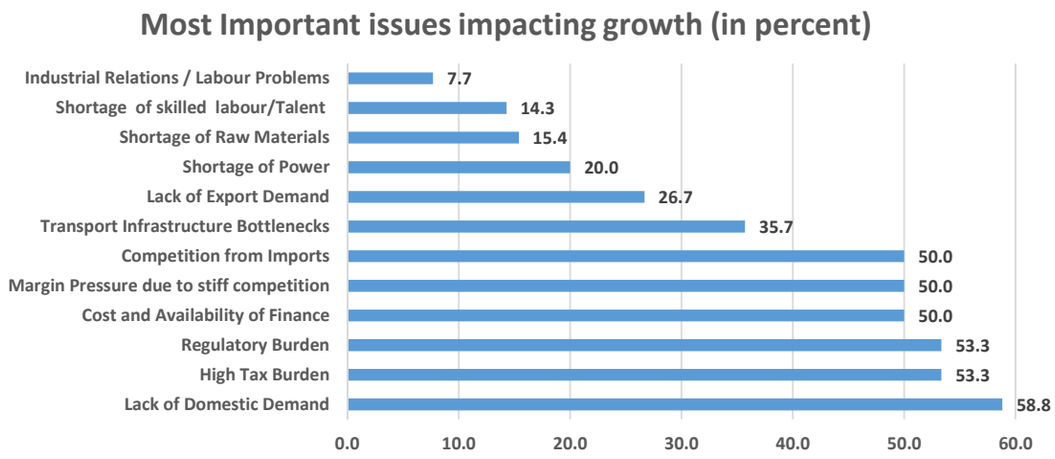
Figure 2.4: Capacity Utilization trends



With respect to issues and concerns impacting growth, lack of domestic demand (58.8%), high tax burden (53.3%) and high regulatory burden (53.3%) have been cited as the

most important constraints by more than 50 percent of the respondents while cost and availability of finance, competition from imports along with margin pressure has been reported as most important constraints by 50 percent of the respondents. Constraints such as transport infrastructural bottlenecks, shortage of power and industrial relations / labour problems were reported as other pressing constraints for companies.

Figure 2.5: Issues impacting growth



3. OUTLOOK FOR NEXT SIX MONTHS

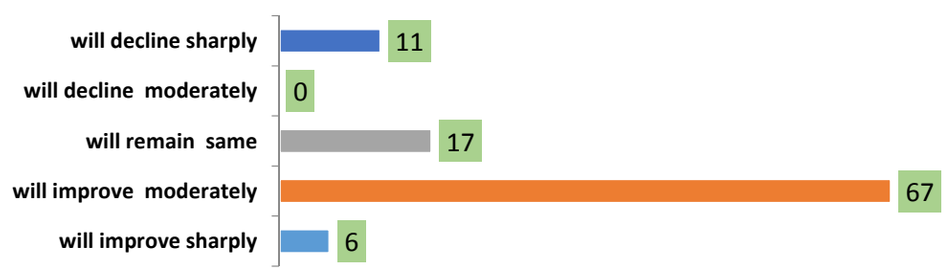
On the industry outlook for the next six months, the Survey responses reveal expectation of a gradual improvement in the overall business situation in the next six months.

More than 50 percent of respondents expect improvement in the overall business situation in the next two quarters. 53.3 percent of respondents expect moderate improvement in new investments in the first half of 2016. On the stalled projects front 46.2 percent of the respondents expect the situation to improve moderately in the coming two quarters

One positive change as evidenced from previous surveys is that firms are optimistic about demand. 60 percent of the respondents expect moderate improvement in the pick-up of new orders in the coming quarters a sign that the prolonged deterioration in domestic demand conditions may be coming to an end. The Survey responses suggest that initiatives taken by the government in the last one and a half year in terms of expeditious project clearances, simplification of procedures and ease of doing business are expected to lift the investment scenario going forward.

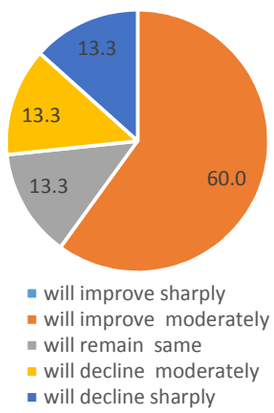
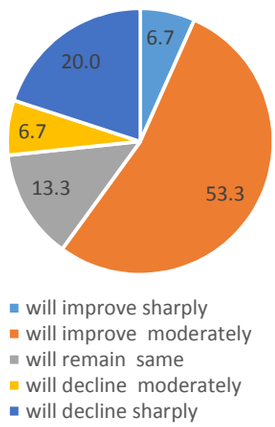
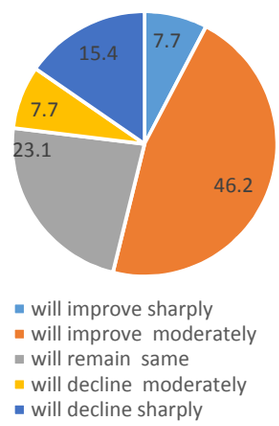
Overall business situation

Almost two- third expected the situation to improve moderately in the next six months



On the demand side, the respondents have evinced hopes of moderate improvement in the economic situation on the back of some progress in sales and exports indicating some pickup in both domestic and global demand. Hopes of a recovery in domestic demand conditions in the coming quarters have gathered strength particularly owing to the imminent payouts as a result of the Seventh Central Pay Commission in the next fiscal.

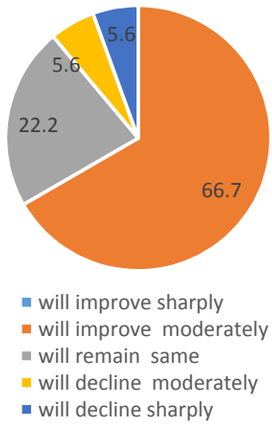
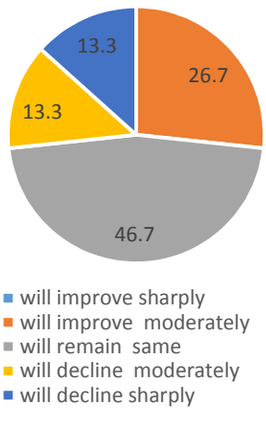
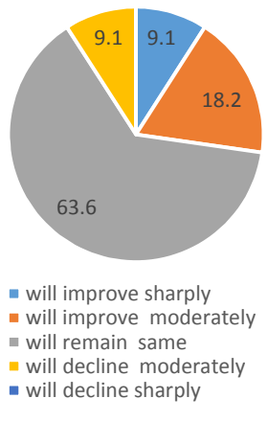
Figure 3.1: Investment outlook for the next six months

New Orders	New Investments	Stalled projects
3/5th expect the new orders to improve moderately	**Almost half expect the situation on new investments to improve moderately**	**Nearly half of the respondents expect the stalled projects to come down**
		

On the sales front, 66.7 percent of the respondents expect the situation to remain the same in the next two quarters. In anticipation of modest support from the global environment in supporting demand in the coming quarters, 46.7 percent of the respondents expect the situation to remain the same whereas 26.7 percent of respondents expect some improvement in exports front situation. Exports have been on the decline for the 13th straight month till December 2015.

On the imports front, a staggering 63.6 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, tyre etc. have been hit by a surge of cheap imports which has further compounded their problems. The recent rupee devaluation has also added to the woes for importers.

Figure 3.2: Business outlook for the next six months

Sales	Exports	Imports
More than 2/3rd of the respondents expect the situation to improve moderately	**Around 1/4th of the respondents expect the situation to improve**	**Around 2/3rd of the respondents expect the situation to remain same**
		

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

The CII ASCON survey results for the October – December FY16 quarter indicates a tempering and moderation of growth trends. The Survey reveals emergence of some green shoots like improvement in the sales and production of commercial vehicles, expected improvement in capacity utilization and healthy excise duty collections signaling an improvement in manufacturing activity supportive of revival in consumption and investment demand growth in the coming quarters. Overall, the Survey suggests that growth trends remain in low gear and emphasises the need for taking proactive steps on various fronts to support the uptick and make it broad based and sustainable.

INDUSTRY SUGGESTIONS

While India's growth in 2015 was a bright spot as compared to its peers, it has fallen short of expectations and certain challenges remain to be addressed to make the recovery broad based. Given that the global demand is likely to remain weak, the Government will have to focus more on internal drivers of growth to augment economic recovery. 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:

✓ Putting a strong focus on infrastructure growth

The revival of economic growth hinges critically on the Government's measures towards higher capital expenditure and revival of projects. The Infrastructure sector holds potential to create a force multiplier effect on economic activity. 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 swift action on the reforms agenda. While the Government has taken a number of initiatives to revive the economy and progress is visible in many areas, especially in improving the ease of doing business, some key reforms have been delayed. With regards to reforms visibility, the industry expect Government to remain focused on ease of doing business and implementation of important economic reforms especially of Goods and Services Tax (GST) and power sector reforms. Industry is eagerly waiting for key economic reforms like land acquisition and labour laws which also play a big role in investment decisions.

✓ Improving investment climate

Creating a proper investment climate is the need of the hour. The respondents in the survey have emphasized the need for intensive action on reforms related to trade and business environment.

The Make in India initiative to push manufacturing sector growth can only become successful if local firms are a part of global value chain. In this regard, reforms in the area of trade facilitation will make Indian industry more efficiently connected to global value chains and facilitate rapid expansion of exports, FDI, and employment. The Survey respondents have stressed on Improving Doing Business Indicators with a focus on removing the massive transaction costs by enabling efficient processes and a more conducive taxation system to help integrate India into global supply chains.

To reduce time taken for customs clearances, the Survey has suggested to immediately fully implement a National Single Window Scheme involving all clearing agencies in all ports, airports and land borders.

✓ Incentivize investments

The macro backdrop of the Budget also calls for the revival of investment cycle. For supporting the investment cycle, industry recommends measures such as fast tracking infrastructure projects, bringing down the corporate tax rate to 23% (all inclusive), abolition of MAT in view of removal of all incentives or alternatively, bringing down the rate to 10%, reduce DDT rate from 15% to 10%. Suitable amendment of Section 80 IA so as to make it amply clear that the upgradation of the existing infrastructure be also eligible for the benefit of Section 80IA, so that there is no ambiguity with regard to claim of Section 80 IA, is also an ask. Providing for accelerated depreciation on plant & machinery, incentivizing companies to go green, reintroduction of Section 80-IB(8A) of the Income Tax Act to give impetus to indigenous innovation R&D and research ecosystem in India are other recommended measures.

✓ Reviving and Strengthening PPP

A number of PPP projects are stalled resulting in substantial amount of funds being locked in claims. To help free up the capital, the Survey respondents have asked for easier norms for equity to be sold off and monetizing of assets.

✓ Boost export competitiveness

Improving long-term export competitiveness which will help exporters gain market share is imperative. Otherwise, with economic recovery leading to higher imports, the trade deficit could widen. For this, there is a need to have a strategic approach to identify products which show good potential in exports of the country and in which world imports are also increasing and provide requisite support. Further, reducing procedural complexities and paper work to reduce transaction costs will also help.

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. State governments need to be made stakeholders in the process of freight corridor development, not just in terms of infrastructure development but also in terms of policy reforms.

✓ Address the issue of cheap imports

At a time when the industry is already reeling under the pressure of unutilized capacities due to subdued demand, continued surge of cheaper imports has further compounded the impact on industry's health. 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.

✓ Making Agriculture a sustainable engine for growth

Agricultural demand has a huge potential and opportunity and has been largely neglected. Steps towards creating demand in agricultural products and rural demand can be a long term growth of engine for India. 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. would support in the creation of demand.

Agriculture also needs to be made more technology friendly. This will help in incentivizing youth to explore career options in the agriculture sector.

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: October-December FY16 and July –September FY16. The results of each quarter are compared with their corresponding values of previous year. While the analysis for July –September FY16 is based on 91 sectoral responses that of October-December is based on 92 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	October-December FY 16	July-September FY 16
Basic Goods	23	21
Intermediate Goods	15	15
Capital Goods	8	10
Consumer Durables	20	20
Consumer non-durables	20	19
Other including services	6	6
Total	**92**	**91**

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) 'Low' (growth less than 0%).

APPENDIX B

Distribution of total sample sectors over different growth ranges

Table B1: Production (October-December FY16 over FY15)

Excellent	High	Moderate	Low
DAP Goods Carriers(M&HCVs) Imported Oils Iron Ore LDO Passenger Carriers (LCVs) Total M&HCVs	Forgings Lubes Scooter/ Scooterettee Total Commercial Vehicles Total Edible Oils Utility Vehicles(UVs)	Air Cargo Transportation Alcoholic Beverage Ball & Roller Bearings Beer Capacitors (LT & HT) Cellular Services Cement Circuit Breakers (HT) Circuit Breakers (LT) Coal Diesel Distribution Transformer Domestic Cargo Electricity Energy Meters Fertilizer Foreign Tourist Arrivals Glass Products Goods Carriers (LCVs) Grand Total of All Categories Industrial Gases International Cargo Limestone LPG Machine Tools MG Variety / Poster Motors (HT) Motors (LT) Nylon Filament Yarn Nylon Tyre Yarn Packaging Paper / Board Passenger Carriers (M&HCVs) Passenger Cars Petrol Petroleum Refinery Polyester Staple Fibre Power Cables - PVC & XLPE Power Transformer Railways Relay/ Control Panel Specialty Paper Steel re rollers Sugar Textile Machinery Thermal Total LCVs Total Passenger Vehicles (PVs) Total Two wheelers Urea Vans Writing & Printing Paper	ATF Crude Oil Goods Carrier (3 Wheelers) Groundnut Oil Hydro Electric Kerosene Lignite Mopeds Motor cycles/Step-throughs Motor Starters Naphtha Natural Gas Newsprint NP/NPK Nuclear Other Oil Passenger Carrier (3 Wheelers) Polyester Filament Yarn Rape/Mustard Soya Sponge Iron SSP Steel Sunflower Tea Total Three Wheelers Tractors Transmission Line Towers

Table B2: Sales (October-December FY16 over FY15)

Excellent	High	Moderate	Low
Goods Carriers (M&HCVs) Total M&HCVs	Construction Equipment Machinery Counterbalance forklift truck Forgings Passenger Carriers (M&HCVs) Passenger Carriers (LCVs)Passenger Carrier (3 Wheelers) Passenger Cars Scooter/Scooterettee Total Commercial Vehicles Total Passenger Vehicles (PVs) Utility Vehicles(UVs)	Beer Cellular Services DAP Freight Earnings Glass Products Goods Carriers Grand Total of All Categories Industrial Gases Machine Tools Motor cycles/Step-Throughs Nylon Filament Yarn Paper Polyester Filament Yarn Polyester Staple Fibre Textile Machinery Total LCVs Total Three Wheelers Total Two wheelers Urea Vans warehouse equipment	Ball & Roller Bearings Goods Carrier (3 Wheelers) MOP Mopeds Newsprint NKP/NP SSP Tourism (Earnings) Tractors

Table B3: Exports (October-December FY16 over FY15)

Excellent	High	Moderate	Low
Goods Carriers -LCVs Mopeds Utility Vehicles(UVs) Vans	Forgings Paper Total Commercial Vehicles Total LCVs	Ball & Roller Bearings Glass Products Goods Carriers -M&HCVs Industrial Gas Plant Machine Tools Total M&HCVs	Goods Carrier -3 Wheelers Grand Total of All Categories Motor cycles Newsprint Passenger Carrier -3 Wheelers Passenger Carriers -LCVs Passenger Carriers -M&HCVs Passenger Cars Scooter/Scooterettee Textile Machinery Total Passenger Vehicles (PVs) Total Three Wheelers Total Two wheelers Tractor

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 around 8000 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 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, 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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