Building National Competitiveness

Confederation of Indian Industry

ASCON Industry Survey

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Contents

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EXECUTIVE SUMMARY

The CII ASCON Industry Survey for the April – June FY 17 quarter points towards the strengthening of the green shoots of recovery in the economy. This is evident from the pick-up of growth in infrastructure led sectors such as cement, steel, sales of construction equipment and commercial vehicles, electrical equipment, cargo handled at ports, expectations of improvements in capacity utilization etc. mainly on the back of various initiatives taken by the government to kick-start growth. The observed trends indicate a firming up of recovery in the economy and is expected to become broad-based in the coming quarters.

In terms of growth trends, the April–June FY 17 saw a tempering of growth trends as compared to the year ago period. Overall, the sectoral trends reveal that majority of sectors remain tilted towards 'Moderate' growth category. More importantly, however, is the moderate growth seen against the backdrop of muted growth registered in most of these segments for the past few years.

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 97 sectors surveyed, the share of the sectors recording 'Excellent' growth of >20 percent in April-June FY17 quarter has declined significantly to 8.2 percent (8 out of 97) as against 17.5 percent (17 out of 97) 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 increased significantly to 15.5 percent (15 out of 97) in the April-June FY17 from 3.1 percent (3 out of 97) during the corresponding period a year ago.

While the share of sectors reporting 'Moderate' growth has shrunk to 41.2 percent (40 out of 97) in Q1 FY17 as compared to 52.6 percent (51 out of 97) recorded in the same quarter last year, the share of sectors witnessing 'Low' growth of (<0 percent) has surged from 26.8 percent (26 out of 97) to 35.1 percent (34 out of 97) in Q1 FY17. This clearly points towards deceleration in economic activity.

The only silver lining is the significant rise in the share of sectors in the 'High growth' category which suggests pickup in growth momentum in some pockets. A further detailed sectoral analysis reveals that while the growth trends are still concentrated in the 'Moderate' category (of 0-10%), the leading growth indicators among various categories indicate towards emergence of some green shoots, signaling an improvement

in activity supportive of revival in consumption and investment demand growth in the coming quarters and can potentially place the economy in a high-growth orbit.

In the basic and intermediate goods categories, a large number of sectors have reported growth numbers falling in the 'Moderate' category. On the back of government's thrust on infrastructure sector and traction in sectors such as roads, ports, railways, solar, power etc., there has been some uptick in activity in the basic and intermediate goods segments. This is reflected in the expansion in the output in the sectors like cement, steel, electricity indicating improving economic activity.

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 earthmoving and construction equipment have reported excellent growth in the current quarter after two years of muted growth. Other sectors such as distribution and power equipment, etc. have reported a fall to moderate growth in the surveyed quarter. More importantly, however, is the moderate growth seen against the backdrop of muted growth registered in most of these segments for the past few 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.

Ordering activities has continued to be on a positive track in select spaces like transmission line towers, capacitors and cables mainly on the back of orders from roads, railways, solar and defence. This points to the fact that the investment cycle is yet to, become broad-based.

The performance of the consumer durables and non-durables sectors, an indicator of consumer spending, also reveals mixed signals of recovery in consumption demand. While the data on lead indicators such as production and sales of passenger car sales has shown a decline as compared to a year ago period, the data on two-wheeler sales, a credible barometer of rural and semi urban demand, has shown good acceleration in the first quarter. Similarly the tractor segment, normally considered as a surrogate to customer sentiment in the rural markets, has also shown improvement. At the same time, improvement in the sales of consumer durable items such as air-conditioners and LED/LCD TVs signals improvements in consumer spending.

Among the services sector, the growth trends in the lead indicators such as cargo handled by civil aviation as well as at major sea ports and sales of commercial vehicles, signal towards revival in economic activity further indicating a calibrated recovery in the domestic and external demand. However, a volatile global economic environment remains a concern for the Indian software services industry.

A comparison of growth trends, on a sequential quarter-on-quarter basis also reveals deterioration in the performance from the previous quarter. The percentage of sectors reporting 'Excellent' performance in April-June FY17 has recorded a decline in share, registering 8.2 percent (8 out of 97) as compared to a share of 11.3 percent (11 out

of 97) in the previous quarter. On the other hand, the share of 'High' growth sectors has dipped significantly to 15.5 percent (15 out of 97) in Q1 (April-June) FY17 from a share of 23.7 percent (23 out of 98) in Q4 (Jan – March) FY16.

While the share of sectors witnessing moderate growth has remained at the same levels registering 41.2 (40 out of 97) in Q1 FY 17 as against 40.2 (39 out of 97) recorded in Q4 FY16, there has been a significant rise in the sectors witnessing 'Low growth' which has increased substantially from 24.7 (24 out of 97) in Q4 FY16 to 35.1 (34 to 97) in Q1 FY 17.

On the capacity utilization front, an indicator of demand acceleration in the economy, the Survey reveals a status–quo in the surveyed quarter as compared to the last quarter. However, the industry is upbeat on the capacity utilization trends going forward. For the July–September 2016 quarter, the Survey results indicate towards overall improvements in the capacity utilization trends. 2/5th of the respondents expect the capacity utilization to be in the range of 75-100 percent as compared to 1/4th of the of the respondents reporting the capacity utilization to be in the range of 75 to 100 percent in the current as well as previous quarter . Expectations on the improvement in capacity utilization trends is indicative of the improvements in the demand conditions supported by a normal monsoon in the current year and government's efforts in clearing projects, addressing situation on high NPA's and cheap imports that were impacting the capacity utilization. The expectations of rising capacity utilization further prompt towards an expected pick up in the private investment going forward.

With respect to issues and concerns impacting growth, High Tax Burden (57.1%), High Regulatory Burden (46.2 %), Lack of Domestic Demand (46.2 %) have been cited as the "Most Important" constraints by more than 40 percent of the respondents.

Significantly, the Survey's respondents have expressed their optimism for further improvement in the near-term. On the industry outlook for the next six months more than 3/5th of the respondents expect moderate improvement in the overall business situation.

Respondents have stressed on the need for continuing on the reform agenda and reviving investments. The Survey has recommended an array of policy measures to boost growth. Some such steps include speedy implementation of the announcements in the budget especially in the infrastructure space, rebooting the public-private partnerships (PPPs) framework and addressing supply-side constraints on a variety of fronts including infrastructure, energy, agriculture and labour.

The respondents have also stressed on taking proactive steps for strengthening the MSME sector by facilitating ease of doing business, promoting domestic sourcing, addressing the issue of non-tariff barriers imposed on India's exports by other countries, reviewing free trade agreements, ensuring effective indigenous value addition etc. 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.

ECONOMIC OVERVIEW

Over the past one year the Indian economy has seen an improvement in its domestic macroeconomic fundamentals and there are encouraging signals towards recovery. As per the revised estimates, released by the Central Statistical Organization (CSO), India's GDP grew at an estimated 7.6 per cent in FY16 which is faster than the previous year's of 7.2 per cent. With this, India has become the fastest growing major economy in the world, overtaking China. Most importantly, acceleration in the growth in Q4 FY16 to 7.9 percent was impressive.

On the domestic front, the incremental lead indicators reflect a continued improvement in growth. Reflected in the pace of India's manufacturing and infrastructure the NIKKEI India Manufacturing PMI surged to a four month high in July 2016 to 51.8, led by higher sales and new orders for consumer goods. India's core sector registered a cumulative growth of 5.4% in Q1 FY17 as against 2.5% in the same period of the previous year. After registering 18 months of contraction, merchandise exports posted positive growth in June 2016. 17 out of top 30 export sectors witnessed positive growth during the month of June 2016.

Incremental data also indicated resilience in domestic consumption demand with personal loans continuing to outperform strong auto sales numbers for June. The combination of higher growth of the core sector industries, auto production as well as non-oil merchandise exports augur towards firmer growth going forward. However, on the downside, moderation in the Index of Industrial Production poses concern.

On the services front, activity levels in the second quarter were on a solid footing. Led by a faster growth in new business, India's services sector grew to a three-month high of 51.9 in July. This was the 13th straight month of expansion in service sector activity.

On the agricultural front, bountiful rainfall supported an uptick in Kharif sowing. The South-West monsoon, after ending the month of June with a deficit of 11%, saw rainfall at 7% above normal in July. The IMD, in its third stage long range monsoon forecast, reinstated that rainfall will be above normal during the monsoon season (Jun–Sept 16) at 106% of the long period average (LPA). After two consecutive years of drought, the forecast for above-average monsoon rains in 2016 have boosted hopes for a revival in agricultural output that could translate into lower food prices and increased disposable income.

On the investment front, the recovery continues to remain slow. The data shows that notwithstanding government's continued efforts at reviving capex, investments remained

muted in Q1 FY17. According to CMIE capex data, growth in project execution saw a modest decline in Q1FY17 following moderate improvement in Q4FY16. Value of projects under execution rose by 5.3%YoY in Q1FY17 compared to 6.7% in the previous quarter and significantly lower than 9.4% during Q1FY16. Bank credit growth continues to remain tepid. Slow pace of pick up in private sector investment along with stretched balance sheets of banks, have been the key factors behind the slow credit off-take by the industrial sector.

On the reforms front, FDI norms were significantly eased for a host of important sectors including defence, civil aviation and pharmaceuticals, opening them up for complete foreign ownership.

On the fiscal front, India's fiscal deficit for the first two months of FY17 stood at 42.9% of Budgeted Estimate (BE) higher than 37.5% over the same period last year, owing to a sharp rise in Plan expenditure so far this year. On the revenue front, gross tax revenues maintained the growth momentum, clocking an expansion of 38% YoY on a YTD basis (Apr-May). While corporate tax collections contracted, possibly on account of higher tax refunds, growth in other tax heads led by excise and income ensured a healthy growth in overall tax revenues.

While the optimism in consumer demand bodes well for future manufacturing activity, the sluggish global conditions remain a cause of concern for both manufacturing and services sector. On the global front, while, since the start of 2016, increased concerns about global economic recovery have dominated the global risk sentiment, the Brexit vote has amplified these concerns. IMF has recognized that Brexit would have negative repercussions that would spread beyond the UK and EU.

While a number of factors such as slow investment recovery amidst balance sheet adjustments of corporates, slow exports recovery amidst tepid global output and trade growth may impinge upon the growth going forward. However, the government's strong commitment to fiscal targets and the thrust on boosting infrastructure and the "start-up" initiative, passage of GST could brighten the investment climate.

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 April-June (estimated) 2016 over April-June 2015 and over previous quarter, January-March (Q4) FY15. The Survey was conducted from 1st July 2016 till end of July 2016.

The Survey is based on the feedback collected from CII Affiliated Industry Associations mostly representing around 70 percent of the total output in their sector. 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 numbering more than 35,000 companies. The survey analysis is based on 97 responses.

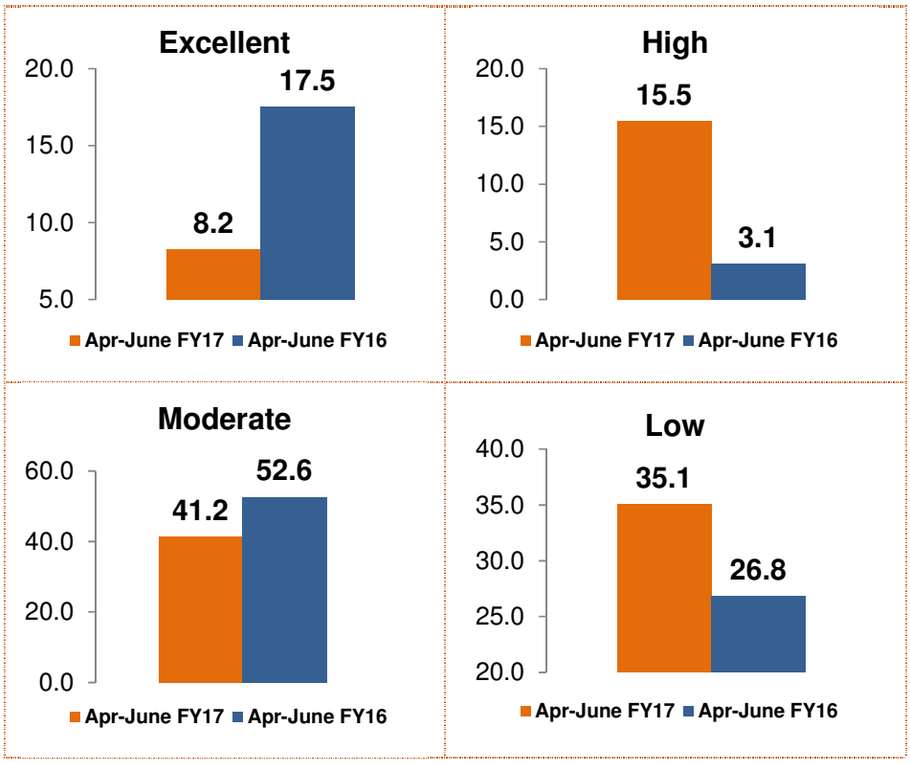
The Survey classifies the growth trends across four broad categories, namely excellent (>20%), good (10-20%), Moderate (0-10%) and Low (<0%).

2.2 Industry growth performance during April-June FY17 over April-June FY16

The results of the latest CII ASCON Industry Survey for July-Sept FY16 reveals a slowing of the growth trends in the April-June 2016 quarter as compared to the same quarter previous year. This is borne out of the fact that out of the 97 sectors surveyed, the share of the sectors recording 'Excellent' growth of >20 percent in April-June FY17 quarter has come down to 8.2 percent (8 out of 97) as against 17.5 percent (17 out of 97) 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 increased substantially to 15.5 percent (15 out of 97) in the April-June FY17 from 3.1 percent (3 out of 97) during the corresponding period a year ago.

While the share of sectors reporting 'Moderate' growth has shrunk to 41.2 percent (40 out of 97) in Q1 FY17 as compared to 52.6 percent (51 out of 97) recorded in the same quarter last year, the share of sectors witnessing "Low" growth of (<0 percent) has surged from 26.8 percent (26 out of 97) to 35.1 percent (34 out of 97) in Q1 FY17.

Figure 2.1: Industry performance Q1 FY17 over Q1 FY16 (in %)



The only silver lining is the significant rise in the share of sectors in the 'High growth' category which suggests pickup in growth momentum in some pockets. A further detailed sectoral analysis, reveals that while the growth trends are still concentrated in the 'Moderate' category (of 0-10%), the leading growth indicators among various categories indicate emergence of some green shoots, signaling an improvement in activity supportive of revival in consumption and investment demand growth in the coming quarters and can potentially place the economy in a high-growth orbit.

In the basic and intermediate goods categories, a large number of sectors have reported growth numbers falling in the 'Moderate' category. On the back of government's thrust on infrastructure sector and traction in the sectors like roads, ports, railways, solar, power etc., there has been some uptick in activity in the basic and intermediate goods segments. This is reflected in the expansion in the output in sectors such as cement, steel, electricity. Fertilizer sector has been supported by the recent government policies and good monsoons.

Going forward, with increased budgetary outlay for power and road sector along with emphasis on creating infrastructure with green energy solutions, affordable housing supported by government spending is expected to pave way for a sustained growth in the basic and intermediate categories. Further, the Discom reforms to help them recover from financial distress and Government and Public sector investment in critical core sector projects should allow a faster recovery in these sectors.

Table 2.1: Sectors which have shown a positive movement in % growth during Q1 FY17 viz-a -viz Q1 FY16		
(Up by 0-10%)	(Up by 10-20%)	(Up by >20%)
Air Conditioners	Domestic Cargo	ATF
Alcoholic Beverage	Goods Carrier (3W)	Bitumen
Audio Home-theatre	Goods Carriers (LCVs)	DAP
Capacitors (LT & HT)	Groundnut Oil	Iron Ore
Cement	LCD/LED	Newsprint
Distribution Transformer	Mopeds	Scooter/Scooterettee
Electricity	Passenger Carriers (LCVs)	Tractors
Fertilizer	Rape/Mustard	Utility Vehicles(UVs)
Foreign Tourist Arrivals	Textile Machinery	
Glass Products	Thermal	
Goods Carriers (M&HCVs)	Total Commercial Vehicles	
Industrial Gases	Total LCVs	
Kerosene	Total Two wheelers	
Limestone	Transmission Line Towers	
LPG		
Machine Tools		
Microwave Ovens		
Motor cycles/Step- Throughs		
Naphtha		
Packaging Paper / Board		
Petroleum Refinery		
Polyurethane		
Power Transformer		
Refrigerators		
Relay/ Control Panel		
Specialty Paper		
Steel		
Total M&HCVs		
Washing Machines		
Writing & Printing Paper		

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 earthmoving and construction equipment, have reported excellent growth in the current quarter after two years of muted growth. Other sectors such as distribution and power equipment, etc. have reported moderate growth in the surveyed quarter. More importantly, however, is the moderate growth seen against the backdrop of muted growth registered in most of these segments for the past few 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.

Ordering activities has continued to be on a positive track in select spaces like transmission line towers, capacitors and cables mainly on the back of orders from roads,

railways, solar and defence. This points to the fact that the investment cycle is yet to become broader-based.

Sectors which have shown a downward movement in % growth during Q1 FY17 viz-a -viz Q1 FY16		
(Down by 0-10%)	(Down by 10-20%)	(Down by >20%)
Air Cargo Transportation	Hydro Electric	Bauxite
Ball & Roller Bearings	LDO	Colour TV
Beer	Motor Starters	Diesel
Circuit Breakers (HT)	Passenger Carriers (M&HCVs)	Energy Meters
Circuit Breakers (LT)	Passenger Cars	Imported Oils
Coal	Petrol	Lubes
Crude Oil	Polyester Filament Yarn	NP/NPK
International Cargo	Power Cables - PVC & XLPE	Nuclear
Lignite	Total Three Wheelers	Nylon Filament Yarn
MG Variety / Poster		Passenger Carrier (3W)
Motors (HT)		Polyester Staple Fibre
Motors (LT)		Soya
Natural Gas		Sugar
Other Oil		Tea
Railways		
SSP		
Steel re rollers		
Sunflower		
Total Edible Oils		
Total Passenger Vehicles (PVs)		
Urea		
Vans		

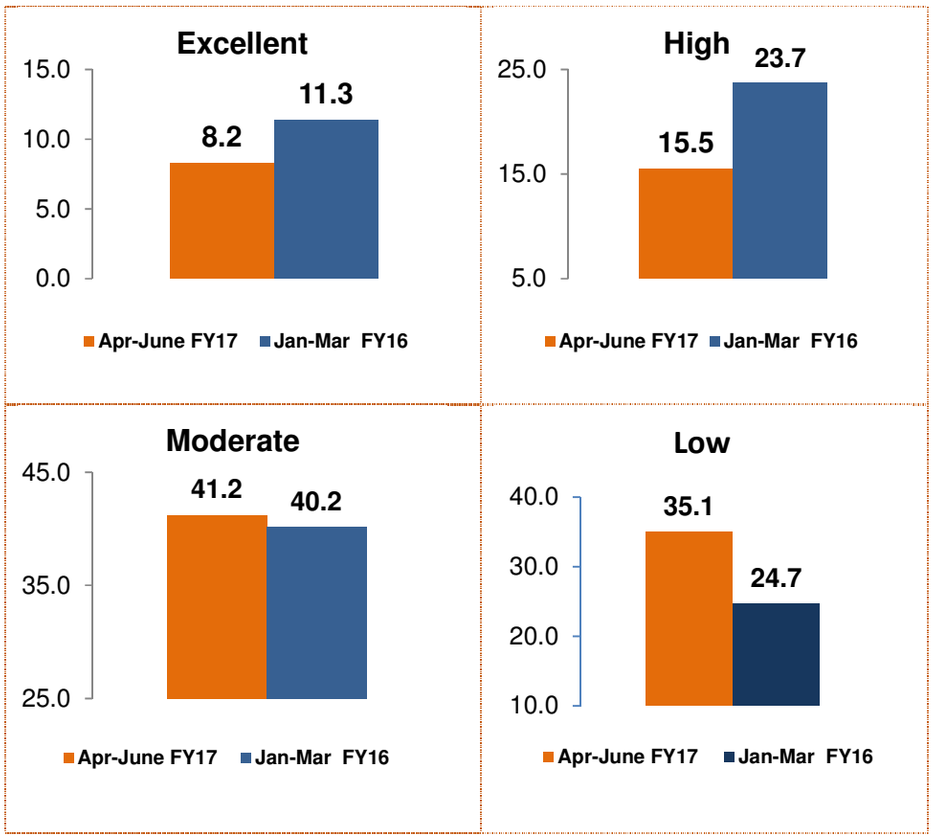
The performance of the consumer durables and non-durables sectors, an indicator of consumer spending, also reveals mixed signals of recovery in consumption demand. While the data on lead indicators such as Production and sales of passenger car sales has shown a decline as compared to a year ago period, the data on two-wheeler sales, a credible barometer of rural and semi urban demand, has shown good acceleration in the first quarter. Similarly the tractor segment, normally considered as surrogate to customer sentiment in the rural markets, has also shown improvement. At the same time, improvement in the sales of consumer durable items such as air-conditioners and LED/LCD TVs signals improvements in consumer spending.

Among the services sector, the growth trends in the lead indicators such as cargo handled by civil aviation, as well as at major sea ports and sales of commercial vehicles, signal towards revival in economic activity further indicating a calibrated recovery in the domestic and external demand. However, a volatile global economic environment remains a concern for the Indian software services industry.

2.3 Industry growth performance during Q1 FY17 over Q4 FY16

A further analysis on a sequential quarter-on-quarter basis also reveals deterioration in the performance from the previous quarter. The percentage of sectors reporting 'excellent' performance in April-June FY17 has recorded a decline in share, registering 8.2 percent (8 out of 97) as compared to a share of 11.3 percent (11 out of 97) in the previous quarter. On the other hand, the share of high growth sectors has dipped significantly to 15.5 percent (15 out of 97) in Q1 (April-June) FY17 from a share of 23.7 percent (23 out of 98) in Q4 (Jan – March) FY16.

Figure 2.3: Industry performance Q1 FY17 over Q4 FY16 (in %)



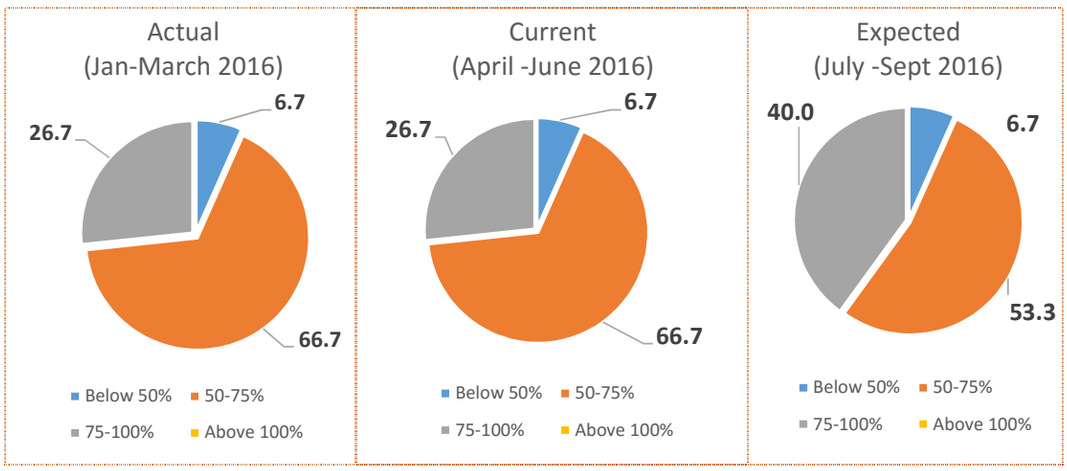
While the share of sectors witnessing moderate growth has remained at the same levels registering 41.2 (40 out of 97) in Q1 FY 17 as against 40.2 (39 out of 97) recorded in Q4 FY16, there has been a significant rise in the sectors witnessing 'Low growth'. At the same time, the sectors witnessing 'Low growth' has increased substantially from 24.7 (24 out of 97) in Q4 FY16 to 35.1 (34 to 97) in Q1 FY 17.

2.4 Capacity Utilization

On the capacity utilization front, an indicator of demand acceleration in the economy the Survey reveals a status–quo in the capacity utilization in the economy in the surveyed quarter as compared to the last quarter. However, the industry is on upbeat on the capacity utilization trends going forward.

According to the Survey, around 2/3rd of the respondents have reported capacity utilizations in the range of 50 to 75 percent for the April-June 2016 quarter, the same as recorded in January – March 2016 quarter (figure 2.4). Whereas, around 1/4th of the respondents have reported it to be in the range of 75-100 percent the same as the last quarter. However, for the July–September 2016 quarter, the Survey results indicate towards overall improvements in the capacity utilization trends with 2/5th of the responses expecting the capacity utilization to be in the range of 75-100 percent. Expectations on the improvement in capacity utilization trends is indicative of the improvements in the demand conditions supported by a normal monsoon in the current year and government's efforts in clearing projects, addressing situation on high NPA's and cheap imports that were impacting the capacity utilization. The expectations of rising capacity utilization further prompt towards an expected pick up in the private investment going forward.

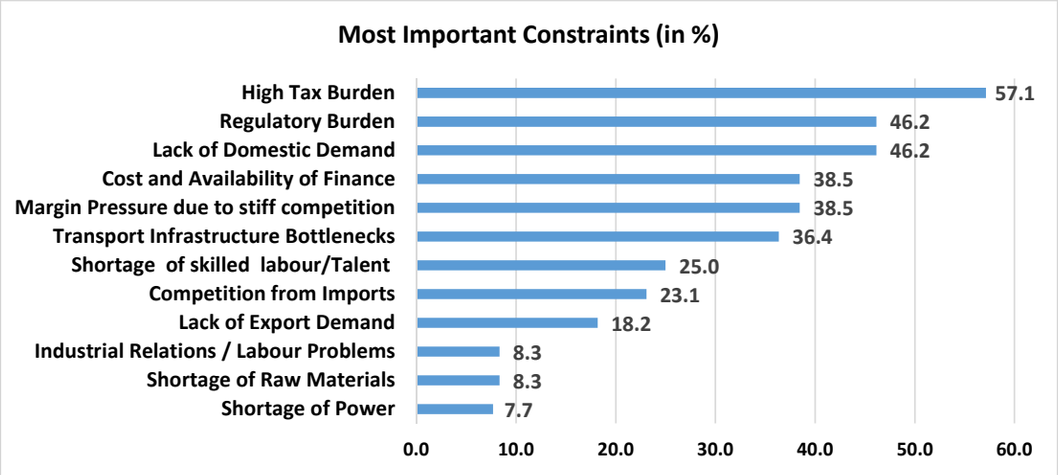
Figure 2.4: Capacity Utilization trends



2.5 Issues and Constraints

With respect to issues and concerns impacting growth, High Tax Burden (57.1%), High Regulatory Burden (46.2 %), Lack of Domestic Demand (46.2 %) have been cited as the "Most Important" constraints by more than 40 percent of the respondents. ON the other hand, Transport and Infrastructure bottlenecks (63.3 %), Competition from imports (46.2%), Lack of export demand (45.4 %) and Shortage of Skilled Labor (41.7 %) were reported as "Moderately Important" issues before the industry.

Figure 2.5: Issues and constraints

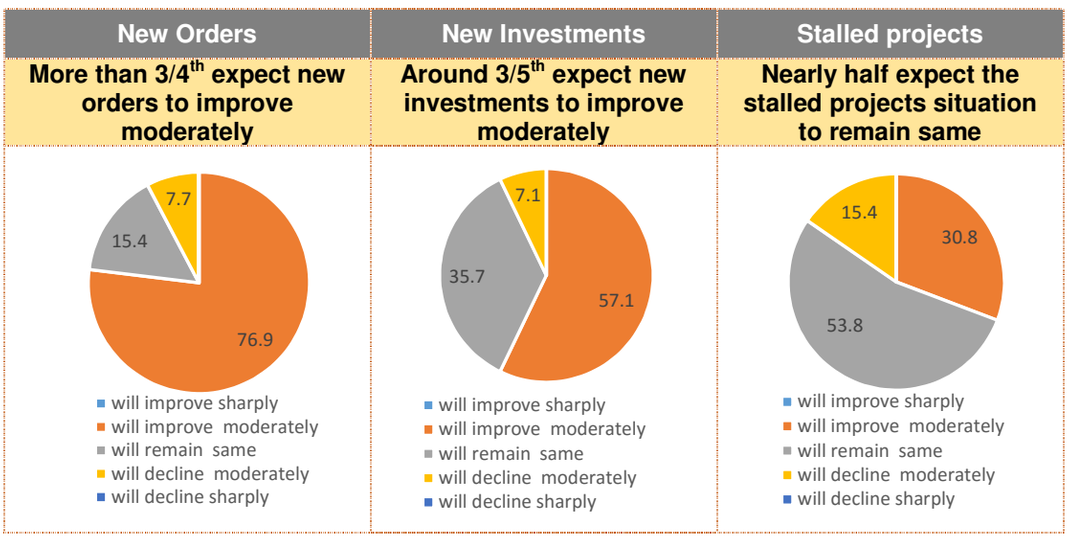


2.6 Investment outlook for next six months

On the industry outlook for the next six months, overall trends point towards a moderate recovery in the next six months. More than 3/4th of the respondents expect moderate improvement in the overall business situation. 76.9 percent of the respondents expect moderate improvement in the pick-up of new orders in the coming quarters. The Survey responses suggest that various steps taken by the government recently such as higher budget allocation to infrastructure sector, opening of sectors to FDI, expeditious project clearances and ease of doing business are expected to lift the investment and business scenario going forward.

57.1 percent of respondents expect moderate improvement in new investments in the next six months. This signals towards continuation of the sluggish pace of investments for at least next six months. A big reason for private sector's cautious approach towards

Figure 2.6.1: Investment outlook for the next six months

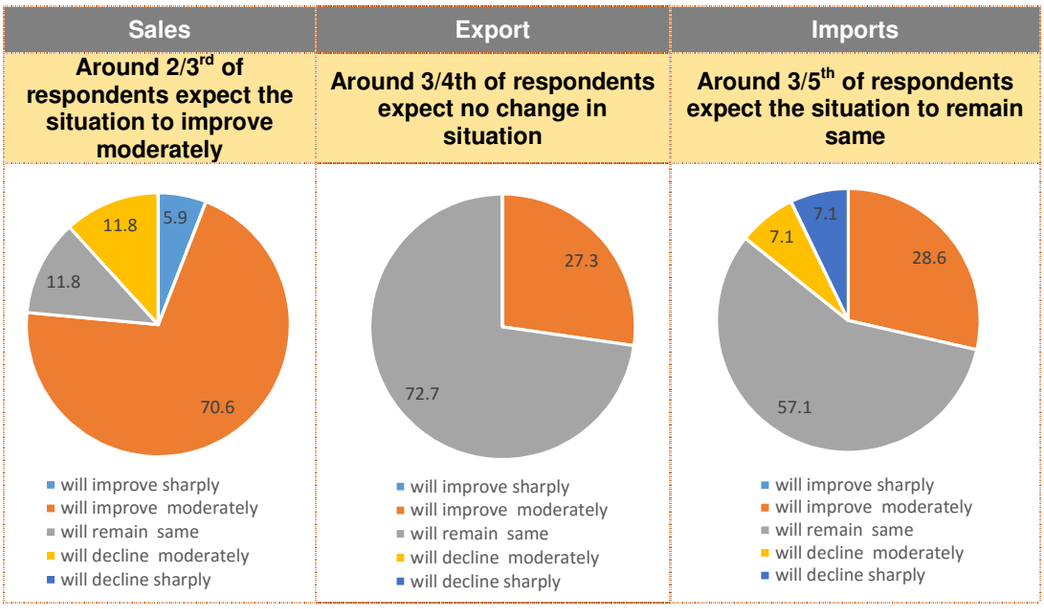


committing more capital is due to the fact that a lot of it is still stuck in stalled projects. On the situation on stalled projects, 53.8 percent of the respondents expect the situation on the stalled projects to remain same.

On the sales front, pinning hopes on the revival of rural demand on the back of normal monsoons, higher budgetary allocation for the rural and infrastructure sector and a cascading effect of the same on the overall economic activity, 70.6 percent of the respondents expect the situation to improve moderately in the next two quarters.

On the imports front, 57.1 percent of respondents expect the situation to remain the same. Whereas on the exports front, a staggering 72.7 percent of the respondents are of the view that the situation will remain the same in the next two quarters suggesting modest support from the global environment in supporting demand in the coming quarters.

Figure 2.6.2: Business outlook for the next six months



Conclusion

The CII ASCON Industry Survey for the April – June FY17 quarter reveals a slowing of growth in the current quarter as compared to a year ago period with overall growth still tilted towards moderate growth for a number of sectors. Overall, the growth trends of the high frequency indicators in the various sectors point to a firming recovery, albeit, slow.

The outlook for recovery remains positive, going forward, early implementation of the various announcements in the budget and other initiatives towards improving the business situation would support new investments improve the order book position, and help effect a turnaround in the investment cycle going forward. Potential revival in rural demand amid improving farm incomes would provide an impetus to volume and revenue growth of companies.

INDUSTRY SUGGESTIONS

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:

✓ Need to speed-up reforms

Progress on reforms is important for a sustained 8-10% GDP growth. With regards to reforms visibility, the industry expects Government to remain focused on ease of doing business and meeting the deadline of April 1, 2017 implementation of Goods and Services Tax (GST).

While the government has made efforts to improve the business environment, ease of doing business need to improve further in terms of issues related to availability of land, availability of quality power and infrastructure which will play a big role in investments decisions and create employment opportunities.

✓ Focus on Implementation

The respondents in the Survey have also stressed on the quick implementation of the announcements in the budget especially in the infrastructure space. Given the continued weakness in private capex growth, government's role continues to remain crucial not just in reviving investment cycle through faster approval of projects but also through swifter policy execution in sectors where it enjoys relative prominence such as railways, roads, ports, mining, among others.

✓ Getting Infrastructure Projects back on track

The problem of stressed assets in the infrastructure sector have resulted in most of the infrastructure companies in deep financial stress. To spur overall infrastructure growth the government needs to

- Fast-track its stated plan of **rebooting the public-private partnerships (PPPs) framework.**
- Also, the government may expeditiously act on the recommendations of Kelkar Committee to revive infra projects.
- **PPP Renegotiations** - Keeping in view the long-term nature of PPP contracts and potential uncertainties of the real economy, there is a dire need for institutional agreement and issuing guidelines for renegotiation of PPP

concession agreements. Timely setting up of the proposed guidelines to renegotiate terms of contract is in the best interests of the country which would enthuse investors' sentiment.

- **Risk Sharing** - Lopsided risk sharing mechanism is affecting the private sector sentiment. There is an urgent need to reset traditional risk allocation formats, which would bring in much needed change in mindset of both parties- Concessionaries and Concessioning authority. The recent example of this change is hybrid annuity model, which removes traffic and tolling risks from the private concessionaire's purview.

✓ Strengthening the MSME sector

- **Facilitating ease of doing business in the sector:** Promoting Domestic Sourcing; Effective implementation of the Public Procurement Policy, National Capital Goods Policy, rethinking and streamlining of various procurement policies at the state and local level should support in bolstering the domestic demand along with generating significant market linkages for MSMEs; Addressing issue of delayed payments.
- **Tapping the opportunity for exports:** Addressing the issue of non-tariff and technical barriers before various items of export from MSME sector to various countries; Effective implementation of the various market development schemes such as the Market Development Assistance (MDA).
- **Review of Free trade agreements:** Given that various cases have been reported where the impact of the current free trade agreements with various countries have proved to be disadvantageous to the various domestic manufacturing SME; need to review the existing FTAs. This should be done in consultation with the industry.

✓ Ensuring effective indigenous value addition

- **Promoting innovation and capacity building:** Focusing more on Design in India to drive Make in India. Developing integrated research facilities feeding to the MSME sector; Provide fiscal benefit for innovation. Improve Industry-Institute interactions to promote creation of commercially viable technologies. Focus on Skill Development. Actively encourage the spending on institutes for Technology & Product development.
- **Considering Phased Manufacturing Program (PMP)** for the growth driving products such as Mobiles/LEDs/Set-top boxes to promote indigenous manufacturing in the country.
- **Discouraging import of second hand machinery f**or modernization; discouraging import of cheap and obsolete technology/machinery by providing necessary safeguards.

- **Ensuring availability of raw materials** of strategic importance for the manufacturing industry at globally competitive prices; facilitating sourcing, stockpiling indigenous mining /exploration, technology transfer of rare earth. Expedite creation of component trading hubs for regular supply /availability of components for MSME;
- **Supporting Local production of Raw Materials:** Correcting Inverted duty structure on raw materials for providing level playing field with imports

✓ Enhancing competitiveness of the Indian Industry

The survey respondents have reiterated on making the industry especially manufacturing competitive which will be essential for 'Make in India' success. High costs such as time taken for compliance with a stipulated procedure, port congestion impacting inbound and outbound goods movement, non-availability of containers etc. are making the manufacturing uncompetitive.

- **Reduction in Cost of finance**
- **Ensuring availability of quality power** to the industry; Making open access to power hassle-free.
- **Reducing Logistics cost** - Laying a well-structured plan for developing export ecosystem; Developing and promoting coastal shipping and inland water transport; expediting action on reforms related to trade and business environment. Provide Ease of Doing Business for Trading across Borders as per International Standards
- Focusing on removing the massive transaction costs by enabling a more conducive taxation system along with relatively flexible labor and land-acquisition laws.

✓ Tackling food inflation

Persistence of high food inflation can harden the monetary policy stance and make fiscal choices difficult. Addressing supply side constraints in terms of improvement in infrastructure to preserve perishable items like fruits and vegetables or infrastructure for better market-access and warehousing facilities. Taking necessary reforms for promoting investments in developing efficient in food value-chains in Agriculture is essential.

APPENDIX A

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.

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

Sectors	Apr-June FY17	January –March FY 16
Basic Goods	25	26
Intermediate Goods	15	15
Capital Goods	10	9
Consumer Durables	27	26
Consumer non-durables	20	20
Other including services	5	6
Total	**102**	**102**

Total 102 responses were received for Apr-June FY17 and the January–March FY16 quarter. For the purpose of uniformity in comparison and analysis apple –to- apple comparison of sectors was undertaken.

APPENDIX B

Distribution of total sample sectors over different growth ranges

Table B1: Production (Apr-June FY17 over FY16)

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

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

Table B2: Sales (Apr-June FY17 over FY16)

Excellent	High	Moderate	Low
Passenger Carrier (3W) Scooter/ Scooterettee Total Three Wheelers Utility Vehicles(UVs)	Forgings Goods Carrier (3W) Goods Carriers (LCVs) Goods Carriers (M&HCVs) Limestone Mopeds Passenger Carriers (LCVs) Polyurethane Total Commercial Vehicles Total LCVs Total M&HCVs Total Two wheelers Tourism (Earnings) Tractors Vehicle Industry	Ball & Roller Bearings Glass Products Industrial Gases Machine Tools Motor cycles/Step-Through Nylon Filament Yarn Passenger Carriers (M&HCVs) Textile Machinery Total Passenger Vehicles (PVs) Vans	Beer DAP Freight Earnings Iron Ore Lignite MOP NKP/NP Passenger Cars Polyester Filament Yarn Polyester Staple Fibre SSP Sugar Sugar Machinery Urea

Table B3: Exports (Apr-June FY17 over FY16)

Excellent	High	Moderate	Low
Passenger Carriers (LCVs) Utility Vehicles(UVs) Vans	Forgings Goods Carrier (3W) Goods Carriers (M&HCVs) Passenger Carriers (M&HCVs) Scooter/Scooterettee Total M&HCVs Total Passenger Vehicles (PVs)	Ball & Roller Bearings Glass Products Goods Carriers (LCVs) Industrial Gas Plant Machine Tools Mopeds Passenger Cars Textile Machinery Total Commercial Vehicles Total LCVs	Castings Castor Seed Meal Grand Total of All Categories Ground Nut Meal Motor cycles/Step-Through Passenger Carrier (3W) Rapeseed Meal Rice-bran Extracts Soybean Meal Sugar Machinery 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 over 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.

The CII theme for 2016-17, Building National Competitiveness, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

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 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

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