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Executive summary

Macro-economic perspective: Bullish expectations on the rise

The last year for the Indian economy has all been about an upturn in growth prospects as business confidence has improved and many issues that plagued the economy have faded away. For starters, inflation is under control, Current Account Deficit (CAD) has contracted to manageable levels, and it appears that the government will meet its fiscal target.

In line with these developments, our latest CFO survey reflects this optimism among CFOs as well. Survey findings show that 9% of CFOs are very optimistic on growth prospects over the next one year with 53.6% optimistic, 36.1% neutral and only 1% not optimistic. In fact, CFO optimism witnesses a dramatic increase over the medium to long term; over a 2-3 year period, 44.3% are optimistic while over a 4-5 year horizon the number spirals to 47.4%. The percentage of CFOs who are neutral drops from a whopping 33% to 3.1% as we move from the 1 year horizon to the 2-3 year period. These findings clearly show that CFOs are willing to give the government time to bring about structural changes that would give growth a more sustainable and meaningful boost.

Governmental push: A positive for the economy

Another major theme that has emerged in our latest survey has been the proactive role that the government has played in reigniting the growth process. The clear mandate given to the newly elected government is likely to help it in pushing through effective legislations, thereby imparting a structural momentum to the growth process. As such, 37.1% of the CFOs were very positive while another 58.8% were positive that the new government would accelerate the pace of reforms. A minority of the CFOs remained neutral but none was negative. In fact, they were positive that in the coming time government policy would turn more favourable for the industry.

Key survey highlights

- The sentiments on the outlook of the economy in the short and medium term are highly optimistic with around 65% of the CFOs positive about growth in the short run, i.e., within a year’s horizon.

- Over the medium term, the level of optimism is even higher with around 97% of the CFOs confident about the prospects of the economy in the next two to three years. Further, around 93% of the CFOs are confident about the prospects in the next four to five years.

- From a policy perspective, optimism prevails regarding the role the new government is likely to play. While 37% of the CFOs are very positive that the new government will accelerate the speed of economic reforms to propel growth, another 59% are positive that the new government will accelerate the speed of economic reforms.

- Within organisations, 71% of CFOs are likely to initiate or speed up new investment plans while 37% are likely to accelerate hiring workforce.

- However, challenges remain; at the macro level, regulatory impediments and uncertainty in tax laws were cited as major issues.
Corporate profitability to pick up
The slowdown of the last few years has seen corporates adapt and better utilise the resources at hand, resulting in increased efficiency in operations. As the economy picks up, corporate profitability is also expected to show an uptick over the next one year. The survey reveals that 78% of the CFOs believe that they will experience an increase in revenue while 71% expect higher earnings.

Capex revival to drive growth
2015 is also likely to see some revival in the corporate capex cycle. Along with the government’s promise of putting in more money towards investment, corporates are also likely to allocate a higher amount towards capital expenditure. About 54% of the CFOs believe that capex expenditure will be higher during the course of the next year while 29% believe that they would keep their capital expenditures at the existing level. Further, 53% of the CFOs expect hiring to pick up while 31% expect no change in the hiring levels, and 44.6% of the CFOs said that they expect higher capex and hiring over the next one year.

Road ahead: Not all smooth sailing
Even as growth and business confidence are on the rise, the path is still not clear of hurdles. Regulatory impediments and uncertainty in the tax environment continue to be one of the major concerns of CFOs. While inflation has moderated enough for the RBI to start the rate cutting cycle, it continues to be a concern shared by 25.8% of the CFOs. Within the realm of industry, increased competition due to new entrants affecting profits, as well as price trends affected by increased competition are major challenges stated by a majority of the CFOs.

The global situation continues to be a cause for concern with most CFOs keeping a close watch on the developments in Europe. Most of them stated that the recession in the Eurozone could affect their business in the coming year.

Make in India
While the CFOs consider ‘Make in India’ an important initiative by the government, regulatory impediments such as lack of clarity on policies, taxation rates and shortage of skilled people remained major hindrances. Further, contradictory to widespread belief, shortage of skilled manpower is cited as the biggest challenge in doing business in India.
The Deloitte India CFO survey 2015 highlights the outlook of CFOs in India on various facets of the Indian economy. The report is based on responses of 102 CFOs hailing from small- to large-scale companies with revenue spanning from INR less than 250 crores to more than INR 2500 crores. The respondents include CFOs from Indian companies as well as from MNCs headquartered both in and outside India, with a workforce comprising less than 500 employees to over 20,000 employees. The survey aims to reflect the overall mood of corporate India on recent economic and political developments.
The 2015 Deloitte India CFO survey reflects the recent wave of optimism about the Indian economy. Unlike the 2014 survey, which focused on a cautious approach, the 2015 survey depicts the bullish expectations on the future prospects of the economy as well as the revival of ‘animal instincts’ the economy so desperately needed. CFOs are highly optimistic about the different facets of the economy, but remain skeptical about the framework and infrastructure within which they work.

In terms of future prospects of the economy, 9% of the CFOs were very optimistic while 51% were optimistic and 39% were neutral about the economy’s prospects in the short-run, i.e., within a year’s horizon. When considering the medium-run prospects of the economy, i.e., 2-3 years, the level of optimism received a fillip with 43% of the CFOs being very optimistic, a major jump from 9%, while 54% were optimistic and 3% percent neutral down from 39%. The survey numbers reveal similar optimism for the next 4-5 years with 50% of the CFOs very optimistic while 42% optimistic about the future prospects of the economy. Overall, this clearly shows that the economy will likely steer towards a meaningful growth trajectory in the medium-run.

**Issues still remain**

Although positive about the prospects of the economy, in terms of actually realising it, CFOs are aware of the structural and policy bottlenecks.

**Major Challenges**

- Regulatory impediments: 57%
- Uncertainty in the tax environment: 51%
- Slowdown in the domestic economy: 44%
- Rupee depreciation: 33%
- Inflation: 27%
- Increased economic volatility: 27%
- Availability/cost of credit: 23%
- High import costs: 21%
- Rising external debt: 6%

About 57% of the CFOs stated that regulatory impediments are among the major challenges with 51% of the CFOs pointing towards uncertainty in the tax environment. Major sectors such as infrastructure, healthcare, telecommunication as well as basic industries such as coal and electricity have all been affected by regulatory impediments. Due to these bottlenecks, India is currently ranked 134th out of 189 in the world in the ‘Ease of doing business’ list published by the World Bank.

Regulatory impediments in basic factors such as registering property, electricity connections as well as enforcing contracts and resolving solvency are major reasons for this low ranking. Among the CFOs who stated that regulatory impediments were a concern, 33% also voted for uncertainty in tax environment. Another 33% of the CFOs believe that rupee depreciation is also a major challenge facing the economy. Apart from directly affecting the purchasing power of citizens and domestic demand, depreciation of the rupee also negatively affects import-based industries through rise in import bill as well as the additional burden of government and foreign borrowing. Even with the consistent drop in inflationary pressures, 27% of the CFOs believe that this is still a major challenge for the economy. Along with inflationary pressures, a large number of CFOs believe that economic volatility also deserves attention. With the global economy still in the doldrums, the Indian economy remains vulnerable to external shocks.
Renewed hope

Even as these issues prevail, there is renewed hope that the new government will address these issues. While 37% of the CFOs are very positive that the government will accelerate the pace of economic reforms, 59% are positive and only 4% are neutral to the fact that the government will speed up economic reforms.

Having given a clear mandate to the government, the electorate is hopeful that the government will fulfil all their aspirations. The government, on its part, has taken steps to boost the economy. Recent initiatives such as the ‘Make in India’ campaign to revive the manufacturing sector, ‘Jan Dhan Yojana’ to bring about financial inclusion, faster clearances of infrastructural projects, etc., have augured well with India Inc.

The government has further opened up various sectors and rolled out the Constitution (122nd) Amendment Bill, 2014, paving the way for introducing the Goods and Services Tax (GST) regime in India. When asked whether this is a good time to take greater risks, an impressive 73% of the CFOs said ‘yes’ and only 27% responded in the negative. This response depicts the positive mindset and upbeat mood of the corporate sector. Thus, investor confidence is high.

New government accelerating growth
Industry Expecting Improvement

Reforms having a positive impact on the industry

<table>
<thead>
<tr>
<th>Reform</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast tracking of projects</td>
<td>53%</td>
</tr>
<tr>
<td>Anti-corruption regulations</td>
<td>43%</td>
</tr>
<tr>
<td>Repealing of redundant laws</td>
<td>39%</td>
</tr>
<tr>
<td>Changes in monetary policy framework</td>
<td>30%</td>
</tr>
<tr>
<td>Changes in FDI limits and FII restrictions</td>
<td>29%</td>
</tr>
<tr>
<td>Policies aiming to reduce CAD</td>
<td>22%</td>
</tr>
<tr>
<td>Changes in land acquisition laws</td>
<td>22%</td>
</tr>
<tr>
<td>Deregulation of fuel prices</td>
<td>20%</td>
</tr>
<tr>
<td>Financial Inclusion drive</td>
<td>16%</td>
</tr>
<tr>
<td>Direct Benefit Transfer Scheme</td>
<td>3%</td>
</tr>
</tbody>
</table>

Expected performance in industry

<table>
<thead>
<tr>
<th>Performance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>78%</td>
</tr>
<tr>
<td>Earnings</td>
<td>69%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>67%</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>54%</td>
</tr>
<tr>
<td>Domestic Hiring</td>
<td>57%</td>
</tr>
</tbody>
</table>

After two years of dismal performance, an air of optimism permeates the industrial sector. CFOs are expecting much better performance from their businesses. Within the industry, higher revenue is expected by 78% of the CFOs while 17% believe that revenue collection will not change, whereas only 5% expect revenue collection to decline. In terms of earnings, a significant 69% of the CFOs expect higher earnings in the future with 16% CFOs expecting both no change as well as lower earnings. Looking at operational cash flow, 67% of CFOs expect increased cash flow with 13% expected no change and a considerable 21% expecting lower cash flow, indicating the fact that most CFOs expect healthy cash flows from business activities.

A major problem plaguing the economy has been the slowdown in investments since the global financial crises. The slowdown is due to a variety of factors such as prevailing demand conditions, policy framework and cost of financing. With a turnaround on the anvil and revival of the capex cycle, 54% of the CFOs expect higher capex spending over the course of the next one year. Further, 57% of the CFOs believe that domestic hiring within the industry will be higher in the coming year while 28% opine that domestic hiring will not change and 15% of them even expect a decline in domestic hiring. Importantly, among the CFOs expecting higher capital expenditure, around 36% expect higher domestic hiring which gives an indication that at least some of the companies are looking at expansion plans. Another interesting observation is that out of the CFOs expecting higher revenue, 40% are expecting higher capital expenditure.
Government policy to turn favourable

Since coming to power, the government has initiated several measures to instill confidence in the industry and several are in the pipeline. Commenting on it, 53% of CFOs opine that the government’s effort to fast track projects is one of the most important initiatives.

The government has recently fast tracked several projects in a wide range of industries through the Project Monitoring Group (PMG). Further, an impressive 43% of the CFOs believe that the aggressive stand taken by the government to address the issue of corruption will greatly help the industry. Along with fast tracking of projects, another 39% of the CFOs state that repealing redundant laws would go a long way in helping the industry. Hence, coming up with a bill to repeal 36 redundant laws will further boost the industry.

Sluggish investments majorly contributed to negative growth prospects in the previous year. Industry, especially the manufacturing sector, is in much need of fresh investments to perk up performance. With this in mind, around 29% of the CFOs believe that the expected lowering of FDI and FII restrictions will greatly help to upgrade processes by bringing in new technology and products in the industry.

Coming to structural domestic issues, inflation has been a key issue affecting the growth trajectory. It not only increases the cost of production, but also compels the central bank to keep rates high affecting interest costs. However, with moderation of inflationary pressures, the central bank is expected to ease its stance and cut policy rates further in the coming days. The recent reduction in policy rates by 25 bps is a case in point. In all, 30% of the CFOs believe that similar responsive changes in the monetary policy framework will definitely drive industrial growth. Further, 22% of the CFOs believe that the recent measures aimed at curbing CAD will lend stability to the external sector and help the overall growth process. A low and controlled level for CAD would also help in avoiding sudden capital outflows thereby giving a boost to investor confidence.

### Key Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales through unauthorised channels</td>
<td>19%</td>
</tr>
<tr>
<td>Excess inventory</td>
<td>24%</td>
</tr>
<tr>
<td>Foreign competition</td>
<td>25%</td>
</tr>
<tr>
<td>Industry regulation/legislation</td>
<td>27%</td>
</tr>
<tr>
<td>Market growth</td>
<td>34%</td>
</tr>
<tr>
<td>Changing cost structures</td>
<td>35%</td>
</tr>
<tr>
<td>Availability of skill sets</td>
<td>37%</td>
</tr>
<tr>
<td>New market entrants (domestic)</td>
<td>42%</td>
</tr>
<tr>
<td>Pricing trends</td>
<td>57%</td>
</tr>
</tbody>
</table>

Challenges lying ahead

The survey findings brought to the fore quite a few challenges in the smooth functioning of the economy and CFOs have demonstrated a cautious optimism in dealing with these challenges.

Almost 57% of CFOs believe that pricing trends pose one of the biggest challenges for the industry, followed by new market entrants and availability of skilled workers. A variety of factors such as difficulty in appropriately pricing products as well as moderation in domestic demand have led to a certain degree of uncertainty as well as a downward trajectory of pricing trends. With new entrants in the market competing for the same customers, there is an increasing downward pressure on profits, according to 42% of the CFOs.

Nearly 37% of the CFOs are of the opinion that unavailability of skilled labour is a cause for concern with higher domestic hiring in the cards. This factor may result in imbalance between the availability of jobs and skilled manpower capable of handling them. Even with a positive outlook about the industry, 34% of the CFOs feel that market growth is an overriding issue. Surprisingly, regulatory and legislative issues rank low with only 27% of the CFOs stating that these are major hindrances. Contrary to the generally held view, in terms of challenges faced by the industry, market forces and market-induced challenges pose a greater threat than regulatory and legislative challenges, according to the CFO survey.
Coming to regulatory concerns, tax laws dominate with 53% of the CFOs still maintaining that the current tax structure is a hindrance. Transfer Pricing (TP) is one of the most hotly debated topics across the globe and India is no exception. Around 42% of the CFOs believe that TP laws, in terms of compliance with related party provisions, are another major regulatory roadblock. The interpretation of these laws and the subjectivity in doing so, are one of the major pain areas creating uncertainty within the economy.

With the recently launched ‘Make in India’ campaign as well as other initiatives taken up by the government to further open up the market for foreign investors, M&A activities are expected to rise. However, as the industry readies itself, the existing challenges continue. Almost 31% of the CFOs believe that valuation is one of the biggest challenges given its complex nature, the variety of parameters involved and the underlying subjectivity of the process. Other than valuation, the survey again points to the regulatory framework being too complicated. A majority of the CFOs opine that complex and multiple regulatory approvals and governance structure are a stumbling block.

**Mixed perception of external factors**

Apart from a slow domestic economy, several external factors such as moderation in global demand, softening of global commodity prices and weak investment flow from developed economies have all adversely affected growth in the industrial and services sector.

Nearly 54% of CFOs believe that the Eurozone going into recession will greatly affect their business. With the possibility of Greece exiting the Eurozone rising again, increased uncertainty prevails about the future prospects of the Eurozone. On a more sanguine note, 38% of the CFOs believe that the recent growth prospects of the US and some European countries would have a positive impact on the Indian industry. With US being the biggest trade partner for the exports of services, growth in the US is likely to improve exports and, thereby help the services industry grow faster. In contrast, the US Federal Reserve’s decision to hike rates is expected to negatively impact prospects of the Indian industry, according to 38% of the CFOs.

Besides, the recent plunge in global crude oil prices has been a shot in the arm for the global economy. With India being a major oil importer and oil being one of the basic raw material for industries, the falling oil prices is expected to positively impact the Indian industry, according to 35% of the CFOs. Not neglecting its traditional trade partners, the CFO survey highlights the fact that the growth prospects of economic regions such as BRICS, Middle East, ASEAN as well as China will influence the future prospects of the Indian economy.

**Global prospects affecting business growth**

**Industry**
Company overview

Even company-specific forecasts are upbeat with 70% of the CFOs talking about their companies initiating or accelerating investment plans in the coming year. Another 37% of the CFOs expect to initiate or accelerate hiring during the same period. Hence, corporate activity in the coming year is likely to be dominated by more growth and increased expansion, according to the CFO survey. A majority of the CFOs are positive about the prospects of the industry across sectors. Further, CFOs also expect profitability to be higher this year.

Challenges towards achieving growth

However, the positivity surrounding company performance is not without its share of challenges. Among the major challenges facing India Inc., revenue growth and preserving the exiting clientele are the most daunting, according to 60% of the CFOs. Rise in domestic players and greater opportunity for global players have made the market highly competitive.

Another 49% of the CFOs claim that finding the right talent pool and workforce is one of the biggest challenges. Among the familiar challenges, the complex tax environment and compliance with regulations on setting up and conducting business stand out, according to the CFO survey. With poor infrastructure, stringent labour laws as well as other supply side bottlenecks still prevalent, 35% of the responses point towards cost reduction as a major challenge. Along with these domestic factors, companies are also affected by external factors; according to 63% of the CFOs, global events directly affect their companies’ policies and performance.

### Corporate profitability

<table>
<thead>
<tr>
<th>Event</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delay, reduce or cancel new investment plans</td>
<td>10%</td>
</tr>
<tr>
<td>Delay, reduce or cancel hiring plans</td>
<td>12%</td>
</tr>
<tr>
<td>Establish a substantial cost cutting programme</td>
<td>18%</td>
</tr>
<tr>
<td>Initiate or accelerate new hiring</td>
<td>37%</td>
</tr>
<tr>
<td>Initiate or accelerate new investment plans</td>
<td>70%</td>
</tr>
</tbody>
</table>

### Challenges ahead

- Framing and/or adapting strategy
- Financing and liquidity
- Prioritising investments
- Managing assets and working capital
- Compliance with regulations pertaining to starting/conducting business in India
- Cost reduction (direct, overheads, etc.)
- Complex tax environment
- Talent
- Revenue growth/preservation in existing and new markets

- Others: 6%
Companies continue their drive to strengthen margins

Companies continued to strive towards achieving a greater degree of efficiency for higher profitability. Among the measures taken to improve profitability, 75% of CFOs aim to reduce costs through process efficiency and another 43% aim to reduce costs through appropriate supply chain changes. Further, another 52% believe that reduced focus on lower-margin business will help in improving margins. Hence, the overall approach is to improve efficiency by optimum allocation of resources as well as simultaneously reduce direct costs. However, around 32% of CFOs believe that there is still room to raise prices of products to improve margins.

The survey also throws light on how emerging technologies are affecting businesses. Use of technology has become an integral part of any business setup as firms try to increase efficiency and successfully integrate different functions. The CFOs are aware of the role of new technology, and they are trying to leverage different networks to improve the reach of their businesses. In such an environment, 37% of CFOs concur that social media had high penetration through networking sites such as Twitter, Facebook, YouTube, etc., and was a cost effective branding tool.

Among the other possible technology disruptions, 51% of the CFOs state that Cloud based infrastructure and solutions along with Enterprise Mobility solutions will greatly impact their business. Cloud computing has made great advancements in recent years and more and more companies are opting for cloud computing services. In terms of technology disruptions, with vast and critical data involved, cloud computing has become an integral part of business functions, greatly impacting companies. Surprisingly, only 12% of the CFOs believe that solutions through analytics for different facets of the business, will greatly affect their business. Instead, they focus on branding their companies and harnessing social media.

Separately, in the realm of analytics, companies want to know about the future growth prospects through predictive analytics and prescriptive analysis; these determine what will happen and how can we make it happen, respectively. In all, 25% of the CFOs believe that using analytics to address general business issues will be beneficial while 21% of CFOs believe that it would be useful to predict future events affecting their business.

Besides these issues, the survey tried to gauge the challenges faced by the CFOs with regard to employee behaviour. Although ethics is considered one of the fundamental pillars to run a successful and principled business setup, fraudulent activities often perpetrate within organisations. When asked to identify which among these dishonest activities their company was vulnerable to, 25% of the CFOs pointed towards bribery and corruption with money laundering coming in a close second.

Another major issue highlighted in the survey was that of intellectual property fraud through counterfeiting and piracy. Apart from a stringent and all-encompassing regulatory framework to inculcate ethical practices among employees, 68% of the CFOs believe that including ethical performance in appraisals would be the most effective way of instilling discipline in this aspect. Other popular suggestions included conducting ethics training for staff as well as third parties and communicating reports on ethical behaviour both internally and externally.

Steps taken to strengthen margins

- Reduce focus on lower-margin customers
- Raise prices
- Reduce direct costs through supply chain changes
- Reduce focus on lower-margin businesses

Technology disruptions affecting business

- Analytics solutions
- Enterprise Mobility Solutions - linking dealers/financial
- Cloud based infrastructure and solutions
- Social media
The objective of the ‘Make in India’ campaign, launched by the Prime Minister, is to give a structural boost to the manufacturing sector and increase the sector’s share in GDP from the present 16% to 25%. It also aims to lure foreign investors to invest in earmarked sectors, which will lead to further employment opportunities as well as transfer of technical expertise. Although well directed, the campaign faces several infrastructural and regulatory roadblocks. High investment risk and lack of clear policy framework is one of the main obstacles, according to 68% of CFOs. The other major factors highlighted by the survey are tax or other levies affecting cost competitiveness. Both these factors point to the uncertainty associated with unclear policy framework, acting as a major deterrent to the overall business confidence. High level of subjectivity in interpretation of tax laws along with assertive tax authorities has made the current tax structure burdensome.

Another critical issue highlighted in the survey is the unavailability of skilled labour. This is a major encumbrance in the successful implementation of the ‘Make in India’ campaign. According to government data, till 2014 only 3.5 million workers had undergone skill courses in a year as compared with 90 million in China. The CFO survey has highlighted another issue that has been persistent in the economy, i.e., land acquisition. The current land law perpetuates uncertainty as well as makes land acquisition costly, thereby adversely affecting the cost effectiveness of investments.
Major challenges of doing business in India

Among the major difficulties faced in doing business in India, the prevailing one was the productivity and employability of people. It is considered as one of the main impediments in India reaping from its demographic dividend; availability of skilled workforce will pose a deterrent for doing business in India, according to the CFO survey.

Lack of adequate infrastructure comes in next in the major challenges, according to the CFO survey. Infrastructural bottlenecks have crippled economic growth for a considerable period although expectations of an overall improvement in ease of doing business in the coming years is higher, the CFO survey findings state. The remaining three out of the five issues were related to bureaucracy and red tape. These include difficulties in contract enforcement and legal issues, costs and difficulties in abiding by mandatory compliances and time required as well as the degree of difficulty in getting approvals, registration, or issue resolution.

Methodology used for data points

For most of the multiple choice questions, percentages for graphs in the report have been derived by dividing the number of responses under a particular category with the total number of responses by the survey participants.