

German Investors see India as an Outpost of Opportunity amidst International Volatility

IGCC Business Monitor 2016 – Key findings among German Investors in India

German managers expecting India's GDP to grow between 6-8% in FY 2016-17 – Growth to remain steady in the medium-term with modest improvement in their company's revenue and profit performance – Prospects for rise in investments with improving capacity utilization rates – Initiatives taken by the Indian government to tackle corruption seen as a major boost for rising optimism among German investors – Poor infrastructure and bureaucracy remain investor concerns

German companies in India remain optimistic about the country's business environment, while maintaining a cautious approach towards growth and investments. They maintain reasonable growth expectations for fiscal 2016-17 and anticipate a stable or moderately upward trend in the medium-term growth. This is on account of India performing well on the international and domestic fronts: India is being observed as a relatively secure investment destination in a volatile global economic environment and the current government's consolidation of power by winning in the 2016 State Assembly Elections has instilled confidence among investors of speedy reforms. This is the outcome of the latest edition of the IGCC Business Monitor, a representative survey of German investors in India.

Two-fifth of the survey participants anticipate India's growth rate for the current financial year (FY) to vary between 6-7% and another two-fifth expect the GDP rate to be around 7-8%. This corresponds to forecasts made by the Reserve Bank of India and international institutions such as the World Bank and International Monetary Fund. Also, over the medium-term, German companies forecast a similar growth pattern: Three-fourth of those surveyed expect India's GDP to grow at a steady rate of 6-8%.

In terms of their performance in the previous financial year (2015-16), German companies rendered a moderate assessment of their performance: More than 20% of the companies reported a revenue increase of up to 10% whereas 30% companies evaluated their situation to remain unchanged. For more than a third of the companies, profits remained unchanged and for a quarter, there was a marginal increase of up to 10%. As compared to last year's actual turnover, managers expect a modest increase in both revenue and profits. More than a quarter of the companies hope to have an increase in revenue of up to 10%. A quarter, expects a growth between 10-20%, but interestingly, a similar percentage of the companies that are surveyed, do not expect a change in this situation. In terms of profit expectations, almost half of the companies expect the situation to remain more or less the same whereas more than a quarter expect an increase of up to 10%.

However, in this year's survey, managers were reserved in hiring people in great numbers and adopted a measured approach towards salary hike. Almost half of the surveyed companies plan to have a stable headcount whereas more than a quarter expect to increase hiring by up to 10%. Interestingly, consolidation of workforce and focus on skill development remains top priority for German Managers, who plan to contain attrition by increasing salaries of their current staff: More than half of those surveyed plan to increase average salaries by up to 10% and another 30% would invest in salary increases between 10-15%.

While stabilizing their foothold in the market and acclimatizing to the Indian policy environment, German investors plan to remain steady with their investment activities in India. Over the medium-term, about half of the German companies will continue to invest in a consistent manner, whereas more than a quarter will increase investments moderately.

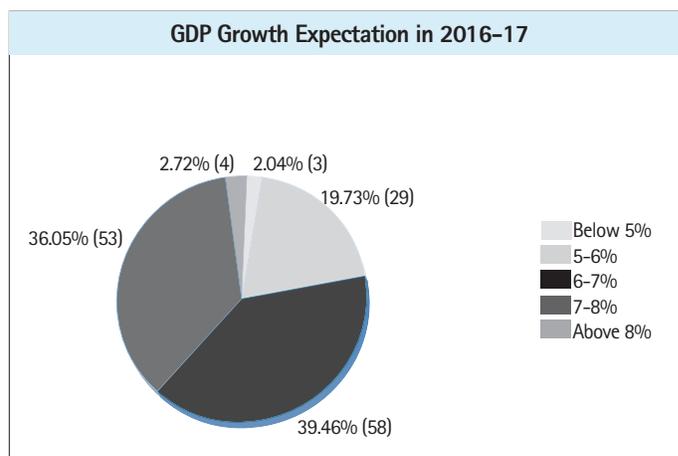
Further, about half of surveyed managers expect the policy and investment climate in India to affect them in a moderately positive manner and another 10% hope to have a positive effect on their businesses. This is on account of a number of incremental but collectively meaningful reforms such as liberalizing FDI norms, restoring stability and predictability in tax decisions, efforts to ease the cost of doing business and initiating mission-style campaigns such as Make in India, Startup India, Digital India and Skill India. More than half of the companies interviewed expect India's political landscape to impact their businesses positively.

About two-thirds of the German investor community has rated bureaucracy, lack of infrastructure and corruption as the top three threats to India's investment climate. Other issues of concern include tax disputes, lack of skilled workforce and labour unrest.

The Survey in detail:

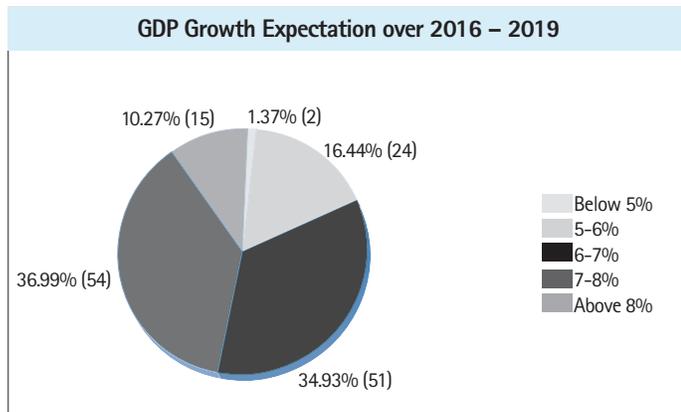
Moderate Expectations for a high GDP growth rate

More than 39% of the respondents expect India's GDP to grow at a rate of 6-7% in the current financial year. Another 39% anticipate a growth rate of more than 7%, which includes just about 3% expecting a growth rate of more than 8%. Less than 22% of the respondents expect a growth rate below 6%, which includes a fraction (about 2%) foreseeing a growth rate below 5%.

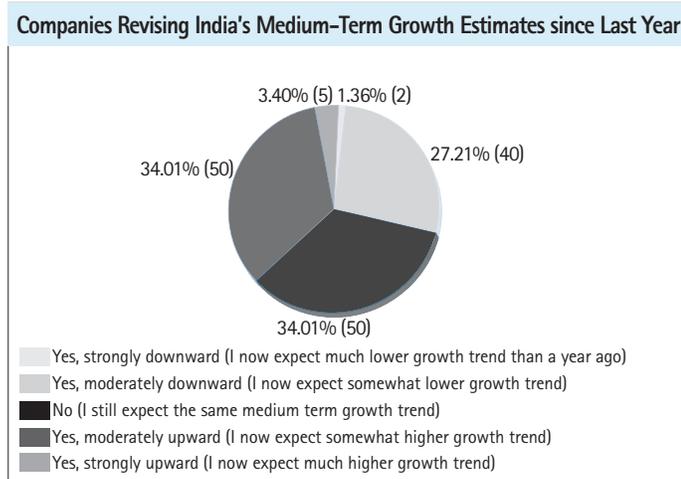


Reasonably optimistic expectations for a high medium-term GDP growth rate

Around 37% of the respondents expect the average growth to vary between 7–8% over the course of the next three years (2016–19). Another 35% make slightly more conservative predictions with expected growth rates of 6–7%. Less than 17% of the respondents have subdued expectations, forecasting growth rates of 5–6%. On the most upper and lower spectrum, around 10% of the respondents expect India's medium-term growth rate to be above 8%, while less than 2% see it below 5%.

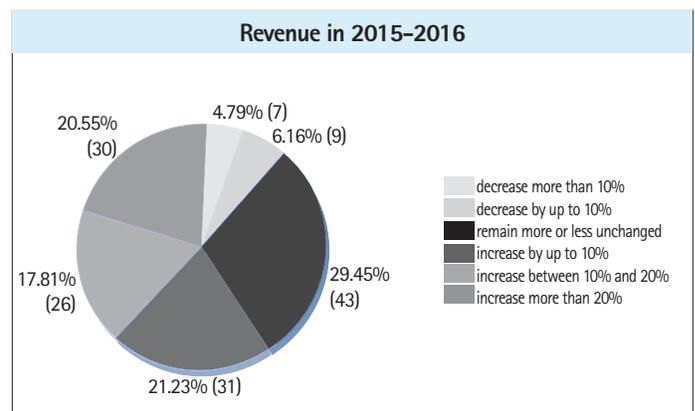
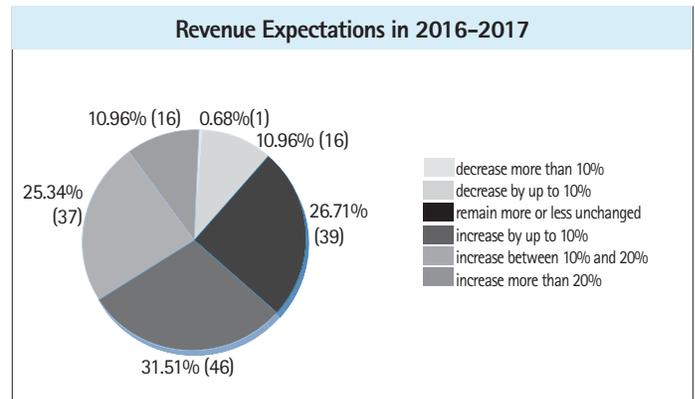


Around one-third of surveyed managers have not revised their estimates of India's medium-term growth trend since last year. For another third, expectations went moderately upward, while around 27% now expect somewhat lower growth than a year ago. Only a small minority strongly revised their estimates upwards (3%) or downwards (1%).

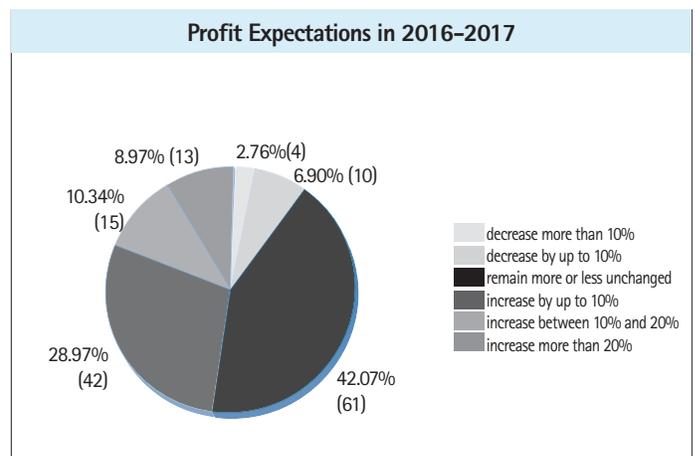


Modest expectations for revenues and profit

Around one-third of the respondents expect their company revenues to grow up to 10% in fiscal 2016–17, while more than 36% anticipate an increase in revenue of over 10%. Around 27% of the respondents feel that their company's revenues will more or less remain unchanged, while a small group of 6% feels that their company's revenues might even decrease in the current financial year. Overall, the German investor community is expecting more modest revenues in the current financial year, as compared to last year's actual turnover.

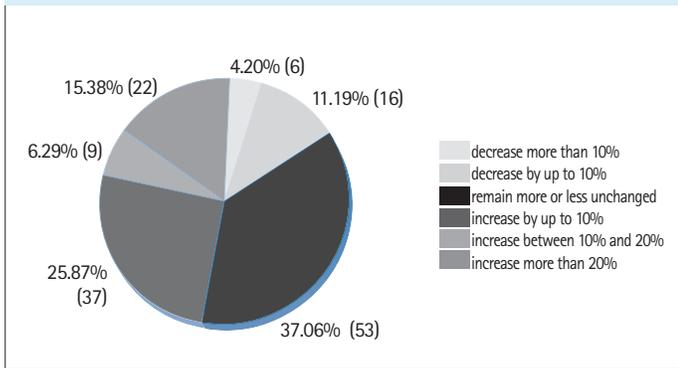


Similarly, high profit expectations are kept at bay with lesser number of people banking upon huge profit generation, as compared to last year. Almost 30% of the respondent companies expect their profits to increase by up to 10% in FY 2016–17. However, only 26% reported such an actual profit rise in the previous year. Moreover, 10% of participants this year (as compared with just 6% last year) are looking forward to a profit increase between 10% and 20%, while the share of respondents expecting a profit growth greater than 20% stands at 9% (as compared with an actual rise of 15% last year).



Around one-tenth of the participants fear losing or anticipate a decrease in their profits in FY 2016–17. However, in reality, more than 15% were not able to sustain their earlier profit percentages and recorded a decrease in their margins last FY 2015–16.

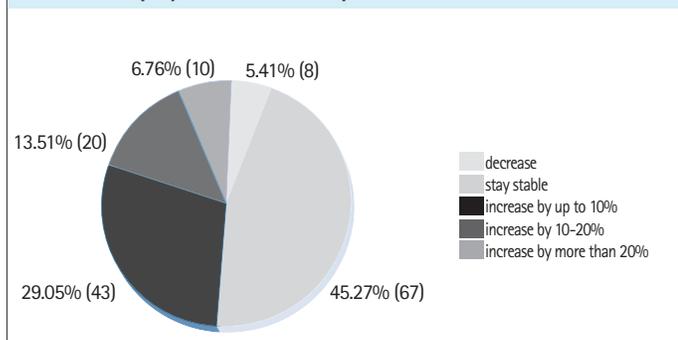
Profit in 2015–2016



Steady Growth in Headcount

In this year's survey, respondents were reserved with hiring people in great numbers, with only 21% looking forward to increase their workforce by more than 10%. Out of this, about one-third looks to increase employment by more than 20% this year. Around 29% of the participating companies plan to increase their workforce by up to 10%. A majority of 45% plans to remain stable in terms of their headcount, and around 5% plan a decrease.

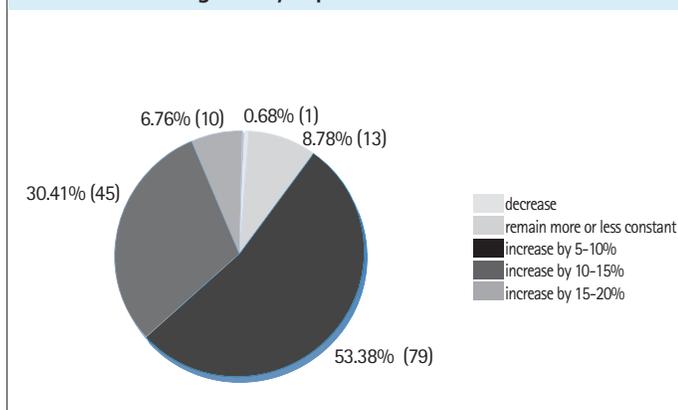
Employee Headcount Expectations in 2016–2017



Considerate growth in salaries

More than half of surveyed managers expect salaries at their companies to slightly grow by 5–10% in FY 2016–17, while around one-third plans to increase salary levels by 10–15%. While 9% of the respondents intend to keep the salary level more or less the same, a very small number of companies (0.70%) are even considering pay-cuts.

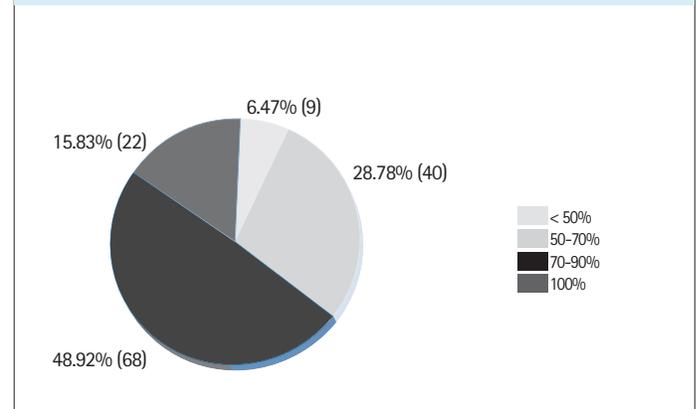
Average Salary Expectation in 2016–2017



Prudently optimistic investment outlook

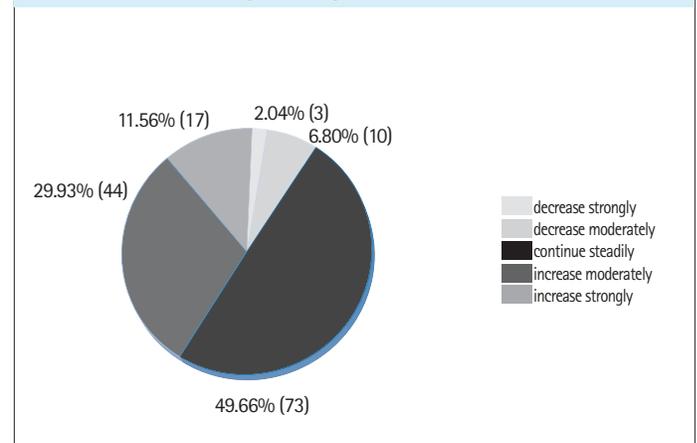
With approximately two-thirds of respondent companies currently achieving capacity utilization rates larger than 70% and only a minority (6%) operating below a capacity utilization rate of 50%, prospects for rising investment rates are improving.

Current Capacity Utilization of Respondents



While half of respondents plan their companies' investment activity to continue steadily over the course of the next three years, about one third expect moderately increased investment. With 12% of surveyed managers forecasting a strong increase in investments and less than 9% expecting a decrease, German companies, in general, appear to be motivated to expand business in India in the current financial year.

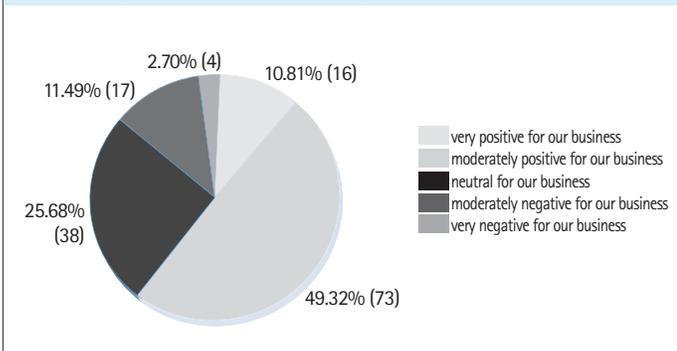
Investment Activity of Companies over 2016–2019 in India



Policy and investment climate slightly optimistic

About half of surveyed managers expect the impact of India's current policy environment and investment climate to be moderately positive for their businesses. Another quarter feels that the current scenario of policy and reform formation and overall investment climate has a neutral impact on their business. It is essential to point out that there is still a share of 12% who feel that the conditions have a moderately negative impact and limit the scope of operations for German businesses, while a minority of 3% consider them to be discouraging. This perception is evened out by 11% who believe that current conditions will make their businesses thrive.

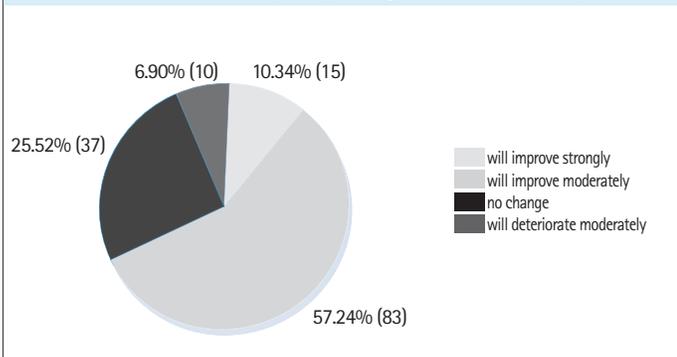
Views of Companies on India's Current Policy Environment and Investment Climate



Moderately optimistic expectations of India's current political landscape

While a quarter of respondents believe that India's current political landscape will have no impact on their businesses, 57% expect moderately positive effects. Another 10% show large optimism, expecting their businesses to improve strongly. The smallest group of 7% expects their businesses to deteriorate moderately under the current political landscape.

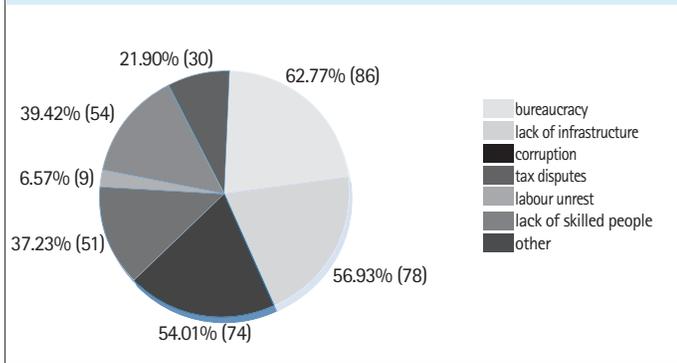
India's Political Landscape Impacting Businesses of Companies



Bureaucracy, infrastructure and corruption major concerns

Getting rid of stringent bureaucracy (63%), need for better infrastructure (57%) and reduction of corruption (54%) are the top three improvement areas for overall betterment of India's investment environment. Improving education systems and skills development programmes (39%) as well as reforming tax regulation are major concerns.

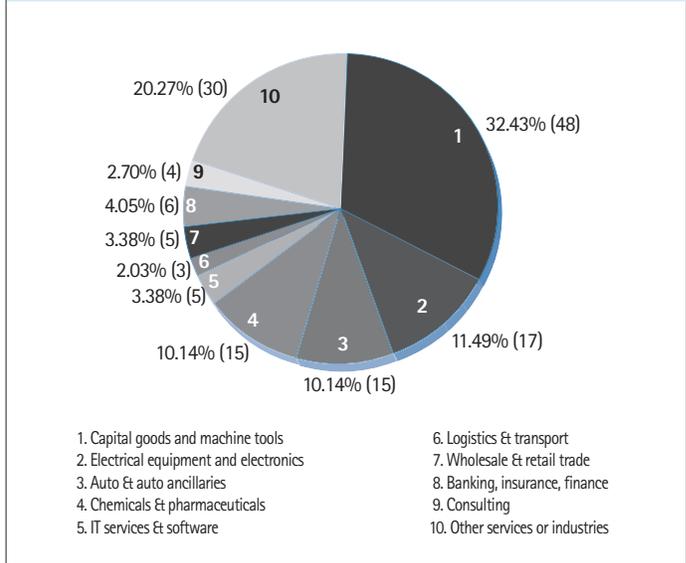
Hindrances to Companies in India



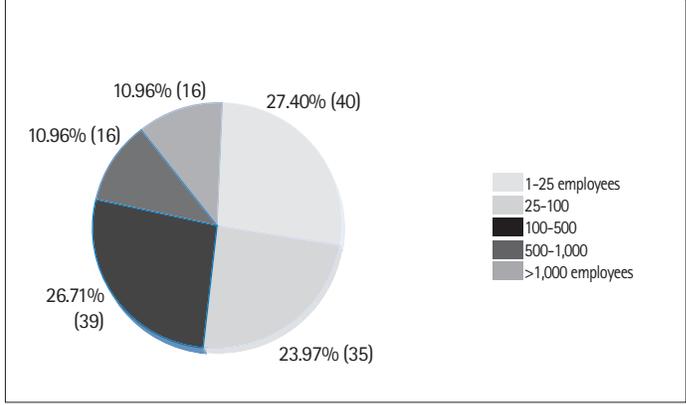
About the Survey

Total number of responses received: 149
 The charts below illustrate sector and employee-wise distribution of the companies which participated in the survey.

Sector Wise Distribution



Employee Strength-Wise Distribution, Direct



Employee Strength-Wise Distribution, Indirect

