International Business Report - India mid-market survey: Insights and outlook for 2020

January 2020

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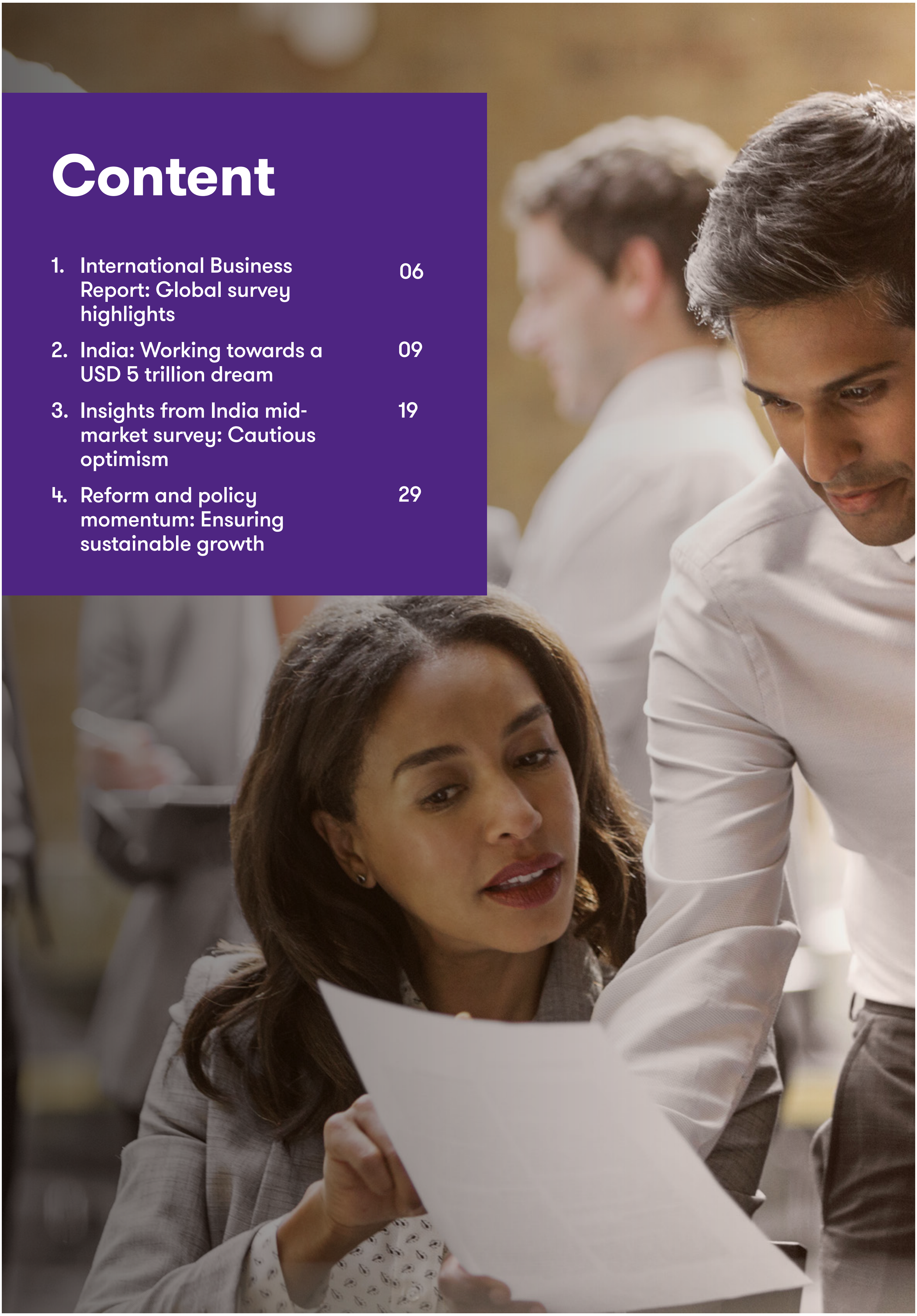
Content



Foreword

Despite the recent turbulence in the global economy, optimism for the Indian economy remains high, on the back of economic reforms, increasing investments, infrastructure development, and the country's unique demographic advantage.

The last decade has been instrumental in India's arrival on the global scene. While the global economy has been weighed down by trade tensions, emerging markets have seen a steep growth curve, of which India has been a major driver. According to IMF, India's share in global GDP growth is expected to rise to 15.5% and eclipse the US over the next five-year period.

The global turbulence has also impacted the Indian economy with GDP growth moderating for the last six quarters from the high of 8.1% recorded in March 2019. 69% of mid-market business leaders surveyed in Grant Thornton's International Business Report (IBR) survey remain optimistic about the outlook of the country's economy over the next 12 months, as compared to 59% optimism for global economic recovery in 12 months. Business leaders in India who were surveyed believe that recent government reforms have been successful in addressing challenges as well as clarifying and simplifying regulations.

India is expected to play an increasingly important role as one of the major growth engines in the Asia-Pacific region, driving the regional trade and investment flows. The government has announced several measures aimed at addressing the pain-points in the economy and lifting the sagging business and household sentiment. These initiatives coupled with India's young and educated population, growing and aspirational middle class, regular flow of foreign investments and huge push on infrastructure development are all the right ingredients to further propel growth.

We hope you will find this India IBR report based on survey findings from business leaders in India insightful.

At Grant Thornton in India, we are delighted to be at the forefront of helping shape a more vibrant India working with the government, leaders of India Inc., and global companies that want to maximise this amazing opportunity.

Vishesh C. Chandiok
CEO
Grant Thornton India LLP

What's unlocking the potential for growth in India

For the India edition of the IBR, we have asked 5 India specific questions to business leaders on their views around recent reforms and their expectations of the economic growth in the coming year.

Figure 1: Has the Insolvency and Bankruptcy Code (IBC), introduced in 2016, achieved its purpose?

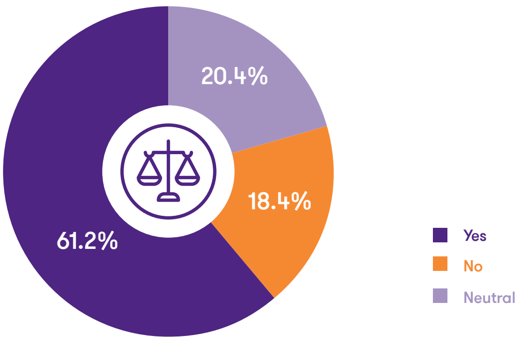


Figure 2: Do you believe the government has taken enough measures on the policy front to enhance 'Ease of Doing Business' in India?

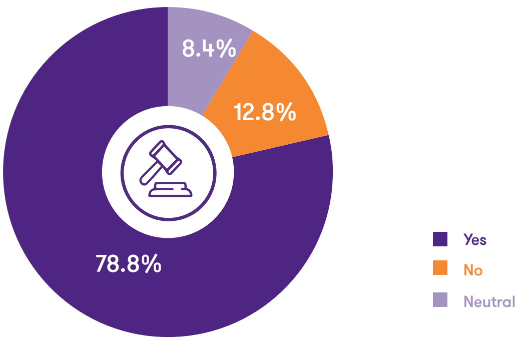


Figure 3: Do you believe the government has taken enough steps to provide certainty and clarity on the tax front for investors in India?

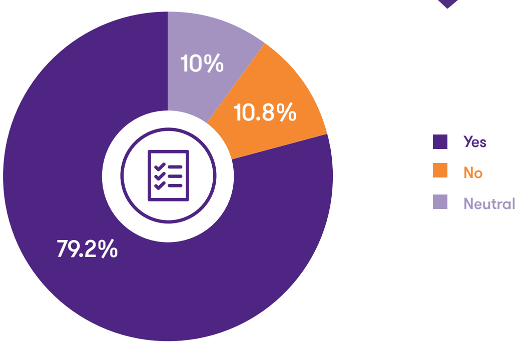


Figure 4: Given the recent global economic slowdown, how optimistic are you about the growth prospects picking up in India in the future?

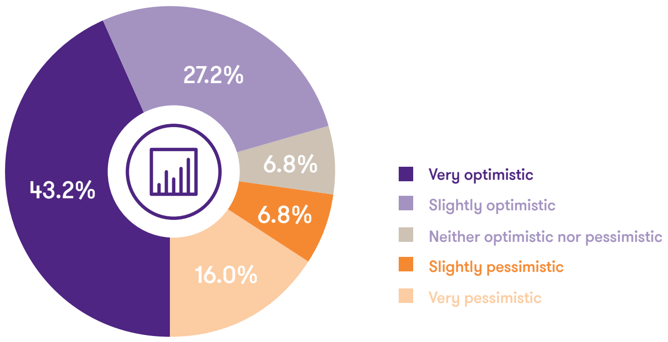
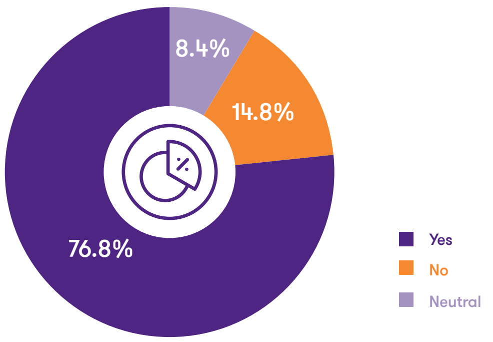


Figure 5: Do you think the Goods and Services Tax (GST) law has achieved its objective of simplifying indirect tax regulations in India?



International Business Report: Global survey highlights

IBR H2 2019: The global economy

Among the 5,000 mid-market business leaders interviewed as part of the IBR global economic outlook, 59% are optimistic about the economic outlook for the next 12 months, an improvement of 3 percentage points from 56% in the first half of 2019.

The Grant Thornton International Business Report (IBR) is a survey of mid-market businesses. Launched in 1992, the IBR now provides insight into the views and expectations of 10,000+ businesses across more than 30 economies. Fieldwork is undertaken on a biannual basis through both online and telephone interviews with chief executive officers, managing directors, chairpersons or other senior executives from all industry sectors.

Improved economic optimisim

59% of business leaders are optimistic about the economic outlook for the next 12 months. However, despite a slight improvement, global economic optimism remains below the 2017-18 average. The share of business leaders with an optimistic outlook is 10 percentage points below the H1 2018 peak. Levels of economic optimism broadly reflect the global outlook for 2020, with growth expected to remain at the lowest rate following the financial crisis in both 2019 and 2020. However, the uptick in optimism bodes well for the outlook.

Similarly, expectations around both revenues and profitability improved in the second half of 2019, albeit only modestly, having fallen in the same period in 2018 to reach the 2016 lows. Asia-Pacific (APAC) and North America, in particular, witnessed an improvement in revenue and profitability expectations.

Despite a slowdown in global trade and escalation in trade tensions, export expectations have not mirrored the downturn. Instead, global export expectations rose to a new high in H2 2019. Emerging economies are feeling most confident about export expectations, with Vietnam, India, Nigeria and Indonesia expecting the biggest increase in exports.

Investment to rise in R&D and technology

According to the IBR survey, mid-market investment expectations have risen for both tangibles and non-tangibles. Firms are particularly optimistic about investment in technology and Research and Development (R&D), with emerging economies including India, Indonesia, Nigeria and Vietnam having the highest number of firms expecting to increase investment spend.

Economic uncertainty a key concern

Firms remain concerned over demand, with 41% of businesses viewing a shortage of orders as a key constraint. Economic uncertainty has risen again in H2 2019 despite small improvements in the first half of 2019. Nearly half of all firms identify economic uncertainty as a constraint to business, with one in five highlighting it as a major constraint.

Wages to grow; skilled labour remains a challenge

Despite global macro trends showing that labour markets are cooling across the developed world, IBR survey results suggest that employment growth in the mid-market will remain robust. The share of firms expecting to increase wages over the next 12 months is at a high of 80%. Although only 22% expect to increase wages at a rate above inflation, this is also relatively high, rising from 16% in H2 2018. It is interesting to note that 46% of firms recognise availability of skilled labour as a key constraint.

Emerging APAC: A promising outlook

In emerging APAC, businesses show resilience despite challenging economic conditions in key markets. In developed APAC, economic optimism continues to decline.

Optimism among firms in developed APAC has declined over 2019. It is now 8 percentage points down since H2 2018. However, in emerging APAC countries, mid-market firms are now more optimistic, with optimism up by 3 percentage points in H2 2019 compared to H2 2018, driven by high levels of optimism in Vietnam, Indonesia and China. This trend was also evident in revenue and profitability expectations for the next 12 months.

Investment intentions in new capacity as well as R&D, staff skills and new technology are much stronger in emerging APAC than in developed APAC, with mid-market businesses in India, Indonesia, Philippines and Vietnam showing strong investment intentions.

Similarly, the number of firms citing economic uncertainty as a business constraint in developed APAC has grown, while it has fallen across emerging APAC. China, in particular, has seen significant improvement on this metric from the same time last year, when the US-China trade tensions had peaked. The number of firms concerned about regulatory red tape as an obstacle to business has also decreased across APAC, possibly reflecting the ongoing discussions between the US and China to sign a trade deal.

Developed APAC consists of Australia, Japan, Singapore, South Korea. Emerging APAC consists of China, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Contrasting findings between developed and emerging APAC

Emerging APAC   Developed APAC

Figure 6: Percentage of business leaders optimistic about their country's economy over the next 12 months

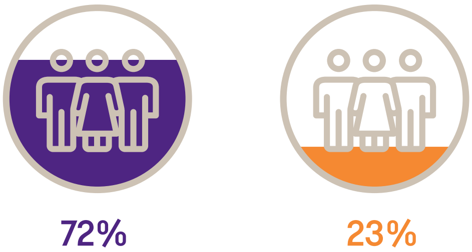


Figure 7: Percentage of business leaders expecting an increase in revenue over the next 12 months

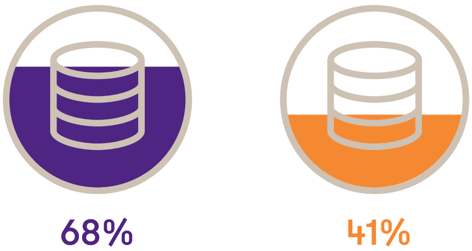


Figure 8: Percentage of business leaders expecting an increase in profit over the next 12 months

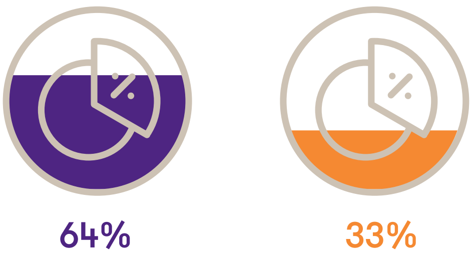
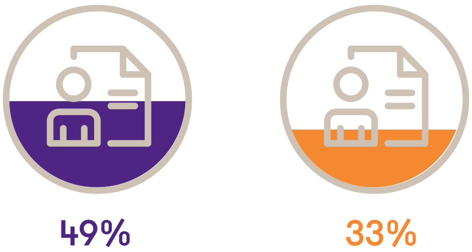


Figure 9: Percentage of business leaders expecting an increase in employment over the next 12 months



India: Working towards a USD 5 trillion dream

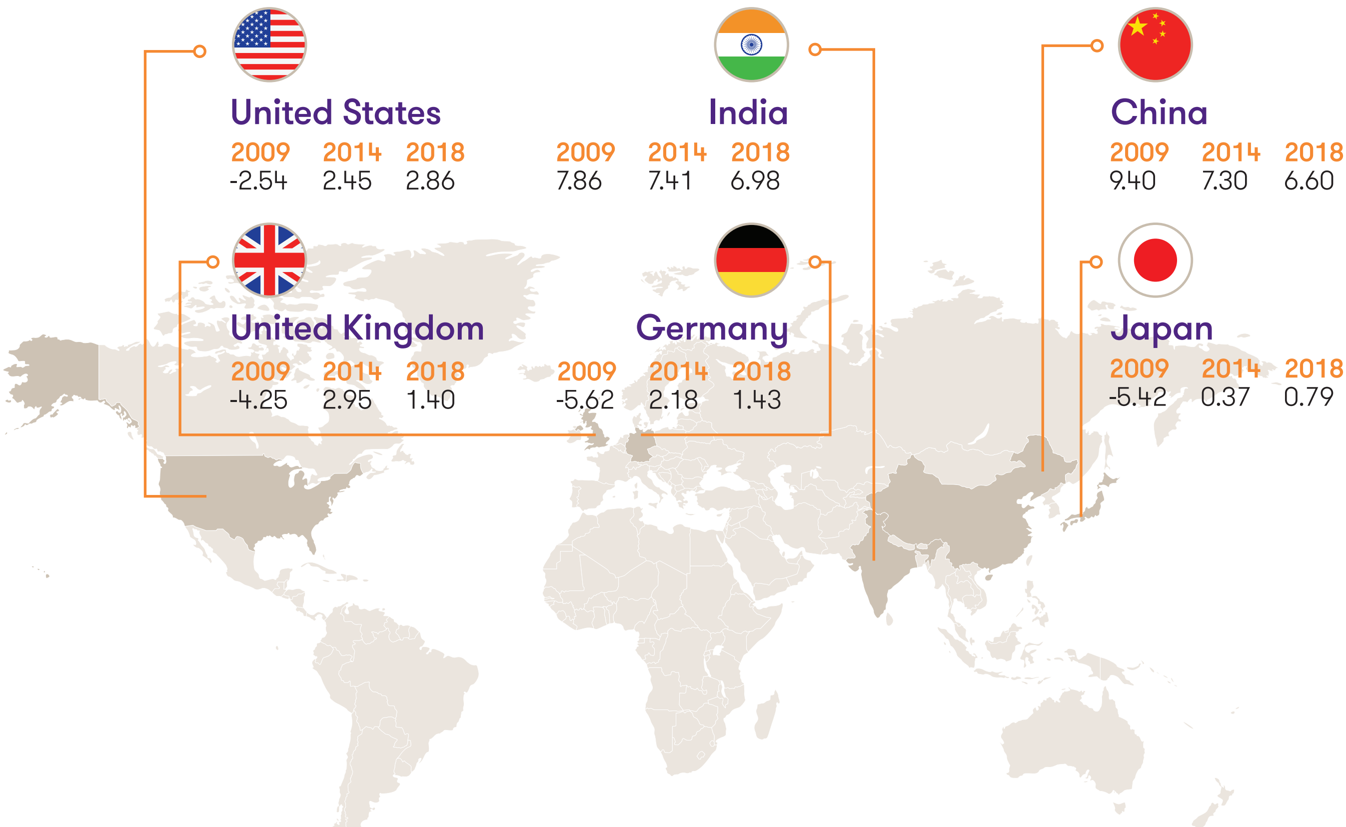
Continuing the growth story

India is expected to play an increasingly important role as one of the major growth engines in the APAC region, driving the regional trade and investment flows. By 2025, the country's GDP - currently at approximately USD 2.8 trillion - is estimated to surpass that of Japan, which will make India the second-largest economy in the APAC region. Globally, India is projected to become the world's fifth largest economy and set to overtake the UK, with a GDP exceeding USD 3 trillion. Despite many challenges, India's economy has grown from strength to strength since 1947. However, with the recent slowdown in real GDP growth to below 5%, the road to becoming a USD 5 trillion economy may not be easy to navigate.

"Mid-market companies are expected to play a key role in India's aspiration to become a USD 5 trillion economy by FY25. We are seeing several enablers such as relatively easier access to capital, lower cost bases, availability of human capital and an improving regulatory landscape. The start-up ecosystem is also becoming a significant contributor, led by fresh inflow of domestic and foreign capital and increasing competitiveness."

Siddhartha Nigam
National Managing Partner, Growth and Clients & Markets
Grant Thornton Advisory Private Limited

Country-wise GDP growth



Source: World Bank

A government that takes charge

India's GDP growth has been moderating for the last six quarters following the high of 8.1% recorded in March 2018. Global headwinds like heightened trade uncertainty and geopolitical tensions have partly contributed to the slowdown. This is in line with advanced economies and many major emerging market economies (EMEs).

The slowdown in the Indian economy is due to various domestic factors, from stressed balance sheets of corporates and banks to demand-side shocks to the non-banking financial company (NBFC) crisis. With the objective of addressing these pain points and elevating the sentiments of both the business community and consumers, the government has announced several measures.

Capital infusion in the banking sector

Between FY14 and FY19, the government has infused capital to the tune of USD 42.3 billion into state-run banks. An asset quality review initiated by the Reserve Bank of India (RBI) in 2015 found that state-run banks had accumulated large non-performing assets (NPAs). This was because corporates borrowed heavily during the boom period of 2005-2008 to invest in various infrastructure projects, many of which did not materialise for various reasons. This capital infused largely helped to mitigate losses in the banking sector. In FY2020, the government has allocated another USD 9.9 billion of capital infusion into these state-run banks to boost the pace of lending.

> In FY20, the government plans to infuse USD 9.9 billion of capital into state-run banks to boost the pace of lending.

Capital infusion in public sector banks

FY20*
USD 9,859 million

FY19
USD 14,930 million

FY18
USD 12,676 million

FY17
USD 3,521 million

FY16
USD 3,521 million

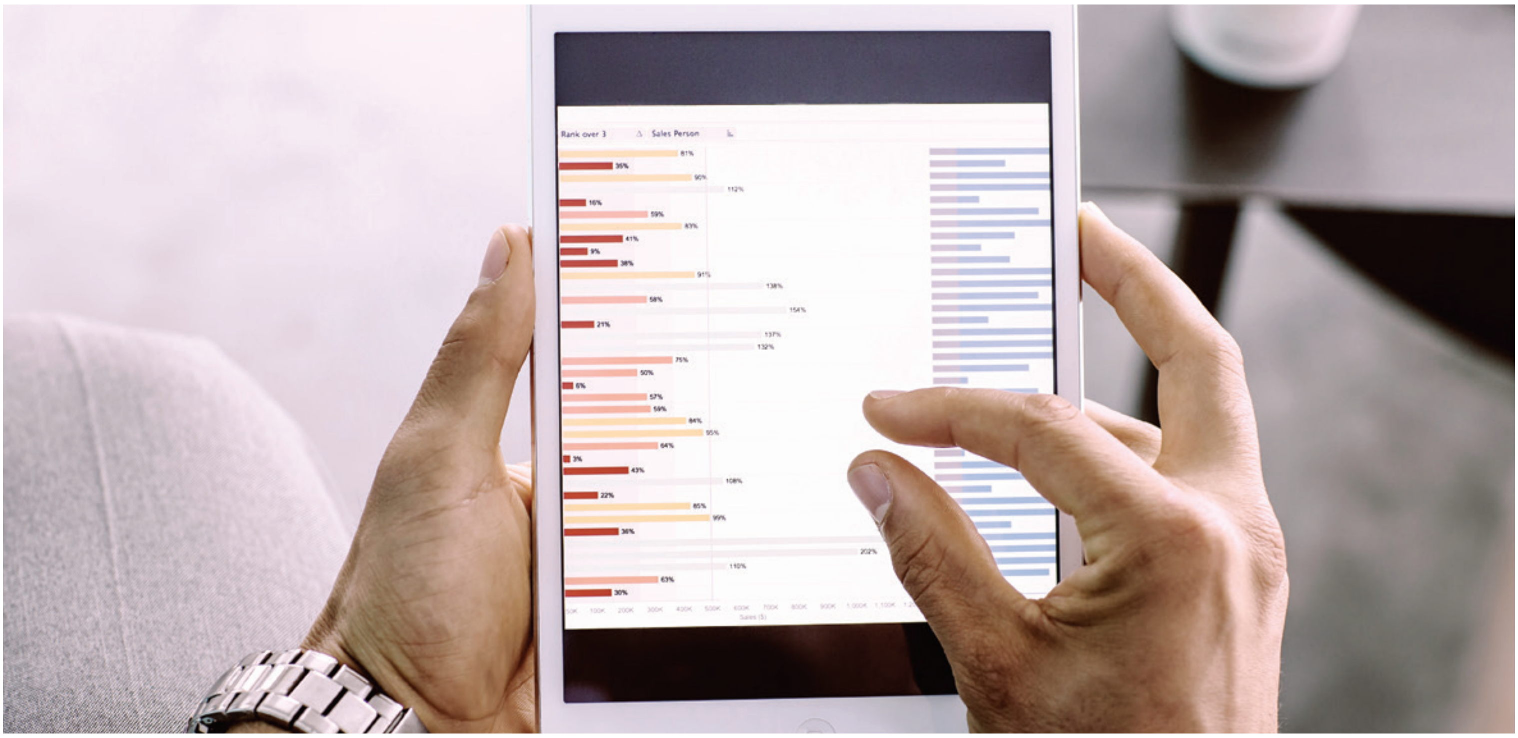
FY15
USD 972 million

Source: RBI

*Budgeted estimate

"Amidst global tariff concerns, the financial sector in India is facing domestic headwinds; liquidity issues are one. The role of fintech is also expected to fast-track financial inclusion, as e-commerce and mobile wallets have a cascading impact across multiple sectors. The Insolvency & Bankruptcy Code (IBC) continues to support lending institutions by enabling them to recover their NPAs in a structured manner."

Khushroo Panthaky
Chartered Accountant



Steps to mitigate the recent NBFC crisis

The government and the RBI have announced several measures to deal with the liquidity squeeze faced by NBFCs. The regulator has relaxed securitisation and priority sector norms to increase liquidity and aid bank lending to NBFCs. The government has also announced a one-time six-months partial guarantee scheme to restore confidence in the sector. Ample liquidity after demonetisation helped NBFCs or shadow banks to aggressively pick up the slack in the lending space.

NBFCs, including housing finance companies, accounted for almost a third of the incremental credit between 2016 and 2018. A sudden default by a large NBFC in September 2018 created panic and raised concerns about the asset quality of other NBFCs. As a result, the shadow banks pulled back from lending and the banks which were just recovering from their NPA issues could not step in to meet the demand.

RBI has maintained an accommodative stance

On the monetary policy front, the RBI has been easing policy rates since February 2019. The current repo rate of 5.15% (as in October 2019) is almost close to the low rates witnessed after the global financial crisis. Lowering policy rates along with surplus liquidity is essential for growth revival. Unlike fiscal measures, monetary policy measures work after a lag as it takes time for policy rate cuts to translate to lower lending rates. However, the transmission channel to the real economy is severely impacted this time around.

The large cumulative repo rate cut of 135 basis points has resulted in only a 25 basis points fall in the deposit rate, a 2 basis points reduction in the base rate (lending) and a 45 basis points reduction in the marginal cost of fund-based lending rate (MCLR). The weighted average lending rate on outstanding rupee loans has not changed much. There are various reasons for the stickiness in lending rates including risk aversion of banks, elevated public sector borrowings and higher small savings rates set by the government.

Pushing the peddle on public investment

With banks turning risk-averse and corporates struggling with stressed balance sheets, private investment has slowed down. Private investment growth in the July-September quarter of FY20 slumped to 1% y-o-y from 4% in the previous quarter.

Under these circumstances, the best way to stimulate the economy is to step up public investments in rural roads, highways, and railways via public borrowing. It is estimated that India needs an investment of around USD 777.73 billion in infrastructure by 2022. In Union Budget 2019, the government allocated USD 63.20 billion for the sector; this included about USD 550 million for the Green Energy Corridor Project along with wind and solar power projects.

The total length of national highways had increased to 122,434 km in FY18 from 92,851 km in FY14. A total of 200,000 km of highways are expected to be completed by 2022. India's 'getting electricity' ranking jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of Doing Business. Energy deficit reduced to 0.7% in FY18 from 4.2% in FY14.

Road construction has more than doubled in the last five years

Year	Road constructed (km)
2014-15	4,410
2015-16	6,061
2016-17	8,231
2017-18	9,828
2018-19	10,800

Source: NHAI

The government is also developing industrial corridors and 100 smart cities by 2022. These smart cities are expected to be urban game-changers with uninterrupted water and power, high-speed internet connectivity, e-governance, integrated logistic arrangements and quality infrastructure.

"With the vision of a USD 5 trillion economy for India, there is a growing impetus on government investment in public infrastructure projects, including roads, railways, ports and urban rejuvenation in the form of smart cities. Integration and proliferation of technology in public infrastructure, coupled with e-governance models will be instrumental in achieving this vision. Grant Thornton has assisted central and state governments to design and implement technology solutions. In the coming years, integrated, efficient and smart public infrastructure will play a key role in India's growth journey."

Ravinder Reddy
Partner, Public Sector
Grant Thornton India LLP

Corporate tax cut: A bold reform

In a bold move in September 2019, the government overhauled and slashed the corporate income taxes from 30% to 22% (25.2% including cesses and surcharges). The estimated stimulus is about USD 20 billion. Corporate taxes in India are now comparable to the lowest rates in the region. For newly incorporated domestic manufacturing companies, the tax is lowered to 15% without any exemptions provided they commence production before 31 March 2023.

In the immediate term, the corporate tax measures may not accelerate growth as overstressed balance sheets, low capacity utilisation, depressed demand and uncertain global outlook will prevent companies from kick-starting the investment cycle or passing on the benefits to the consumers. However, this move will definitely boost corporate sentiment, making companies competitive, improving profitability and repairing credit profile.

Effect of corporate tax rate cut

	Effective rate earlier (%)	Effective rate now (%)	Tax cut (%)
Turnover less than INR 400 Cr (USD 56 million)			
Taxable income less than INR 1 Cr (USD 140,500)	26.0	22.9	3.1
Taxable income greater than INR 1 Cr (USD 140,500)	27.8	24.5	3.3
Turnover greater than INR 400 Cr (USD 56 million)			
Taxable income less than INR 1 Cr (USD 140,500)	31.2	22.9	8.3
Taxable income INR 1 - 100 Cr (USD 140,500 - USD 14 million)	33.4	24.5	8.9
Taxable income greater than INR 100 Cr (USD 14 million)	34.9	25.6	9.3

Source: Media reports

Building a strong case for food processing

The agriculture sector contributes around 17%-18% to India's GDP and employs more than 50% of the country's total workforce. With only 10% of the total food produced in India getting converted into value-added products, the potential of food processing is immense. The government has been quick to understand that a well-developed food processing sector will help facilitate crop diversification, reduce burden on farming and generate employment opportunities in the allied sectors up the value chain. The Ministry of Food Processing Industries (MoFPI) has modified fiscal incentives and various schemes under the Pradhan Mantri Kisan SAMPADA Yojana. Some of the initiatives to strengthen the food processing infrastructure include the mega food park scheme, value addition and preservation infrastructure, infrastructure for agro-processing clusters, the cold chain and scheme for creation/expansion of food processing and preservation capacities, among others.

"Enhancing agriculture competitiveness is essential for environmental sustainability, elimination of rural poverty and maintaining food security. Grant Thornton is the market leader in assisting various initiatives of the government towards efficient irrigation (more crop per drop), diversification (horticulture clusters), capacity building and aggregation (FPO promotion)."

Kunal Sood
Partner, Public Sector
Grant Thornton India LLP

Real estate: Focus on affordable housing

The government has announced a fiscal incentive of USD 2.8 billion for the real estate sector to provide last-mile funding to housing projects for the affordable and middle-income segments that are neither declared NPAs nor part of insolvency proceedings. In order to boost affordable housing, the government has announced a 'Housing for All by 2020' scheme.

Affordable housing has been given infrastructure status. A total of 15.4 million rural homes have been constructed in the last five years; another 19.5 million are expected to be completed in the next phase under the scheme.

Housing for All tracker

Mission target
11.2 million houses

Total expected investment
USD 98.3 billion

Investment in ongoing projects
USD 42.1 billion

"In 2019, challenging economic conditions in India led to loss of investor and consumer confidence that impacted the real estate sector. However, new asset classes like co-working, co-living and student housing have provided the required breather. The outlook for these emerging asset classes looks promising."

Alok Saraf
Associate Partner and Real Estate Sector Leader
Grant Thornton Advisory Private Limited

Digital India: Strengthening financial inclusion

The government, along with regulators, is working aggressively to propel India towards a digital economy. Since its launch in July 2015, the Digital India initiative is driving socio-economic development. At various stages of implementation, these initiatives will certainly foster financial inclusion. For example, with Aadhaar as the foundation, India Stack, an open API-based technology stack, has the potential to transform how information is recorded, stored, retrieved and used. The idea is to adopt a 'presence-less, paper-less, and cash-less service delivery system'.

The Indian technology sector is vibrant with both large IT service providers and start-ups driving innovation. However, with the proliferation of internet, cybersecurity incidents have risen significantly, demanding constant attention of the government to address the issues. From 50,000 in 2016, the number of cybersecurity incidents rose to 0.3 million between January and October 2019. The intent to keep citizens at the centre while pushing the digitisation drive is evident. In December 2019, the cabinet approved the Data Protection Bill for tabling in the Parliament, taking the country a step closer to framing a privacy law.

India stack provides 4 distinct technology layers

Presenceless layer
Where a universal biometric digital identity allows people to participate in any service from anywhere in the country

Paperless layer
Where digital records move with an individual's digital identity, eliminating the need for massive amounts of paper collection and storage

Cashless layer
Where there is one interface to the country's bank accounts and wallets to democratise payments

Consent layer
Which allows data to move freely and securely to democratise the market for data

Source: Indiastack.org

Growth in UPI transactions

Over three years after its launch, UPI now sees 1.2 billion monthly transactions

FY2016-17
17 million

FY2017-18
914 million

FY2018-19
5.39 billion

FY2019-20*
7.33 billion

Source: NPCI

*Data available for eight months only

"The technology sector is attracting fresh funds from both domestic and international sources, aided by increasing clarity from the government on data protection, e-commerce, etc. The Digital India campaign and proliferation of broadband and high-speed mobile networks to the remotest parts of the country will enable the rural economy to enter the mainstream."

Raja Lahiri
Partner and Technology Sector Leader
Grant Thornton India LLP

Consumption showing signs of revival

The GDP figures for the July-September quarter show that consumption growth inched up to 5.1% y-o-y versus 3.1% in the previous quarter. Consumption had become the key driver of economic growth in India - with over 55% weight in share of GDP and a growth of 8% on average since 2015. Households even dipped into their savings to support private consumption.

In the last couple of years, India has faced demand-side shocks following demonetisation and the Good and Services Tax (GST), as authorities tried to formalise the economy rapidly. However, swift remonetisation, soft oil prices and increased investment by the public sector have helped cushion consumption.

Problems in the NBFC sector last year hurt retail lending. Household consumption could not be sustained for long. The slowing consumption demand was reflected in the auto sales numbers and top-line of FMCG companies. However, the auto sector is suffering from structural issues like regulatory and policy uncertainties - from the adoption of BS-VI standards to shift to electric vehicles.

“Over the past year, the consumer sector has witnessed challenges from stagnant demand, especially from the rural areas due to lower wage growth and weak economic sentiments. However, the government’s push to improve liquidity and continuous lowering of interest rates are likely to improve consumer demand. The sector is poised for growth in the coming year, led by increasing disposable income of the urban middle class, ease of FDI norms and the demand impact of millennials.”

Anupam Kumar
Chartered Accountant

Wage hike in India to be the highest in APAC

This year, India is likely to see the highest salary growth in Asia at 9.2% followed by Indonesia at 8.1% and China at 6%. On the other hand, countries like Japan and Taiwan are likely to see lowest salary growth of 2% and 3.9%, respectively.

According to an industry estimate, salaries are predicted to grow at a rate of approximately 4.9% globally in 2020. Adjusted to inflation, the real wage in India is anticipated to be at around 5%, which would be amongst the highest globally.

Measures to reap the demographic dividends

India cannot realise its demographic dividend without its citizens being adequately educated, properly skilled and in good health. Indian corporates have been highlighting the problem of getting properly trained or skilled employees for some time now.

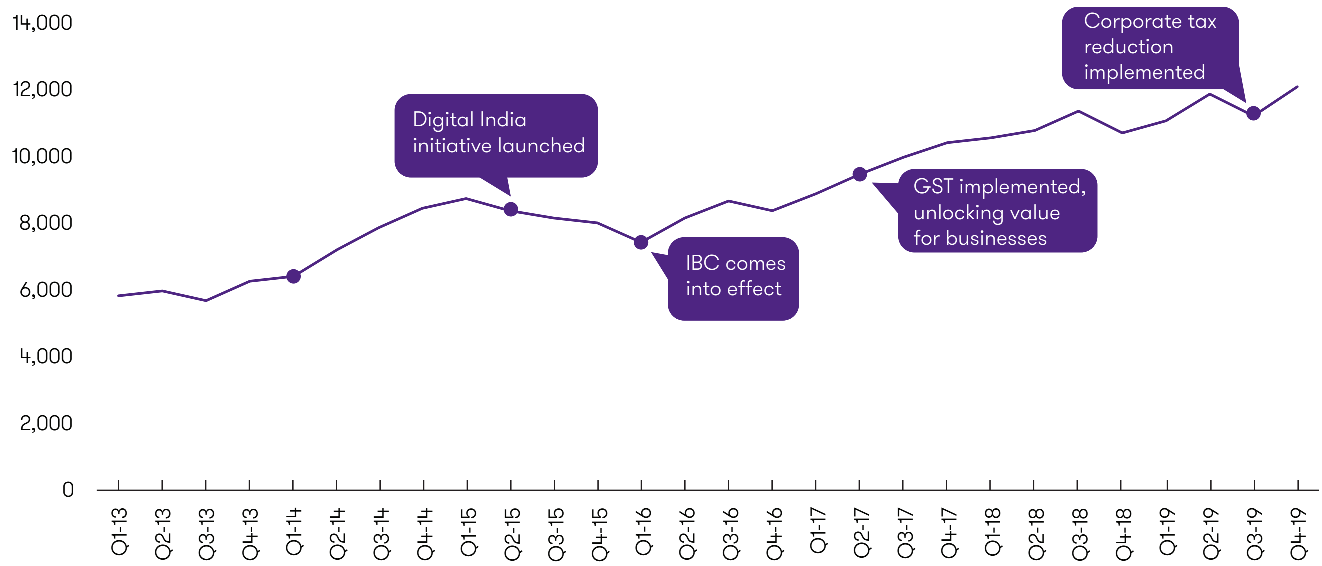
As a result, the government of India launched the Skill India initiative in 2015 to help improve people's employability and productivity. The Ministry of Skill Development and Entrepreneurship also made comprehensive reforms to the Apprentices Act, 1961, giving maximum control to the private sector so that the industry standards are maintained as per market requirements.

The Ministry's flagship scheme, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), has trained close to 6.9 million people so far. By recognising and certifying skills acquired informally through a programme under PMKVY, the Ministry has been able to bring about a major shift from an unorganised to an organised economy. More than 1 million people have been certified and formally recognised under the various programmes of the scheme.

Market optimism continues

There has been a big divergence between the economic indicators and the market indices, which have touched new highs. The divergence has also been there in the corporate earnings and market returns. While annual NIFTY return in the last 5-6 years has been about 11%, the corporate earnings have been muted at about 3.5%. Market optimism has been supported by continued reform-related announcements by the government. The corporate tax rate cuts were followed by packages for the real estate sector, reforms in the telecom sector and announcement of strategic disinvestment of five large public sector undertakings.

NIFTY 50: How the market moved



The NIFTY 50 index is the National Stock Exchange of India's benchmark broad-based stock market index for the Indian equity market. It represents the weighted average of 50 Indian company stocks in 13 sectors.

Insights from India mid-market survey: Cautious optimism

Business optimism in India higher than global average

In India, 250 business leaders were surveyed to provide insights on the views and expectations of Indian mid-market businesses. Fieldwork was undertaken in October and November 2019, through both online and telephone interviews with chief executive officers, managing directors, chairpersons, and other senior executives across industry sectors.

69% of mid-market business leaders surveyed are optimistic about the outlook of the country's economy over the next 12 months. This is notably higher than APAC's regional expectations at 56% and global expectations at 59%.

India faced challenging economic conditions in 2019, resulting in a dip in the optimism levels of mid-market business leaders by 10 percentage points in H2 2019, from 79% in H1 2019.

However, despite the challenges, optimism levels in India remain well above the global levels of 59%. In fact, India ranked joint 6th (with Brazil) out of the 32 countries surveyed in terms of optimism levels.

This can be attributed to the fact that India continues to be one of the fastest growing economies globally, with its GDP expected to touch USD 5 trillion by 2024.

The government has also taken a number of proactive steps to tackle challenges and boost growth. (See page 10)

"In India, the competition in the private equity space has increased due to enhanced availability of capital, resulting in improved deal activity in value and volume terms across segments such as fund raising, investments and exits. The growth is largely driven by factors such as increasing global liquidity, declining global bond yields and the inability of other domestic sources of capital to keep pace with a growing economy, with substantial traction seen in sectors like financial services, technology, consumer, and real estate. Interestingly, in 2019, there were five deals valued at over USD 1 billion and over 60 deals of USD 100 million and above, indicating investors' confidence in the Indian economy."

Dinesh Anand
National Managing Partner, Risk and Global Private Equity Leader
Grant Thornton India LLP

Indian business leaders remain largely optimistic

Figure 10(a): How optimistic are you about the outlook of India's economy over the next 12 months?

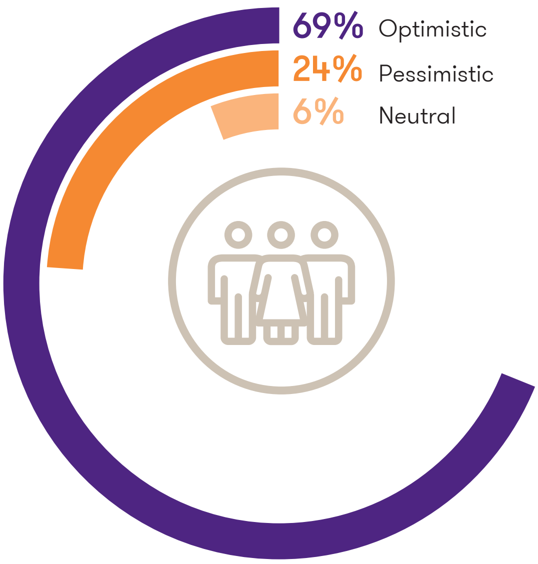
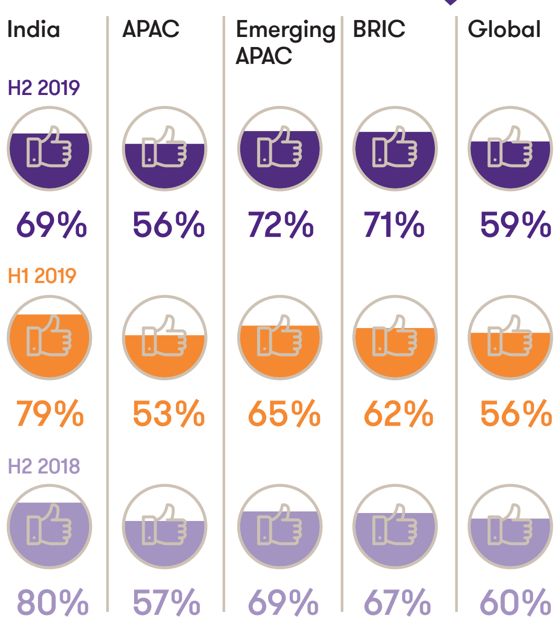


Figure 10(b): Optimism levels in India remain above global average



Business growth expectations above APAC and global levels

Mid-market business leaders' growth expectations for their operations have dipped slightly in the last six months given the wider economic challenges. However, growth expectations in India remain well above the APAC and global average.

Selling prices

In H2 2019, 56% of leaders surveyed stated that they expected selling prices for businesses to increase, highlighting the relative confidence that businesses have in demand improvement in the domestic market. In comparison, 38% firms in the APAC region and 41% firms at a global level stated that they expected selling prices for businesses to rise.

Revenue

The proportion of firms expecting revenue to increase stood at 72% in H2 2019, only 2 percentage points down from 74% in H1 2019. This reflects that majority of mid-market businesses view the subdued consumer spending in the first half of the year as a temporary phenomenon, and business leaders have faith in the long-term economic growth prospects. India ranked 5th in terms of revenue growth expectations globally.

Profits

In H2 2019, 64% of firms surveyed felt that profitability will increase in the months to come, decreasing from 72% in H2 2018. India ranked 7th out of the 32 countries surveyed on profitability expectations. The recent reduction in corporate tax rates, from 30% to 22%, is expected to further drive this positive sentiment around profitability in the near future.

Growth expectations in India higher than APAC and Globally

Figure 11: Percentage of business leaders expecting an increase in selling price over the next 12 months

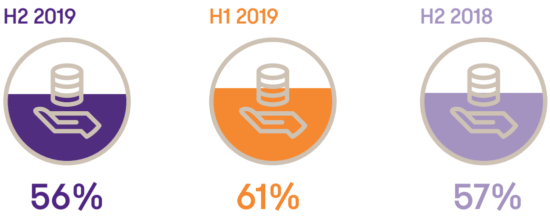


Figure 12: Percentage of business leaders expecting an increase in revenue over the next 12 months

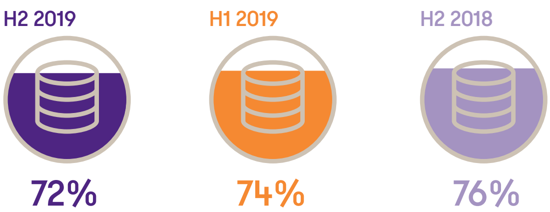
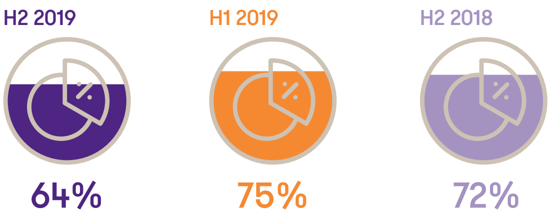


Figure 13: Percentage of business leaders expecting an increase in profit over the next 12 months



Exports to drive growth

Employment expectations

In H2 2019, mid-market C-suite executives in India were optimistic about employment expectations, with 66% of executives expecting to increase employment in the coming year.

In contrast, C-suite executives across APAC expecting to increase the number of employees stood at 44%, while the global percentage was 45%.

This sentiment illustrates the expectation of revival in labour-intensive sectors such as real estate, infrastructure, manufacturing, as well as the government's continuous focus on boosting employment levels through increased capital expenditure.

Exports

Indian businesses expecting to increase export levels in H2 2019 stood at 69%. In fact, India ranked 2nd in terms of optimism for export expectations in the coming months.

Considering the challenges in the domestic market, Indian businesses can achieve their growth plans by expanding internationally and exposing themselves to a larger pool of customers than they have at home.

The overall positive sentiment around exports can be attributed to the success of campaigns by the government such as Make in India, which has led to the setting up of production units in India, including the world's largest mobile manufacturing facility.

"Indian healthcare and pharmaceutical sector is now switching gears to drive up the value chain by investing in complex drug molecules. India currently imports around 80% of its medical devices; this only demonstrates the significant investment opportunity for setting up medical device manufacturing facilities in India."

Amit Kumar Bajaj
Partner and Pharmaceutical Sector Leader
Grant Thornton India LLP

Employment and exports expectations in India remain higher than global levels

Figure 14: Percentage of business leaders expecting an increase in employment over the next 12 months

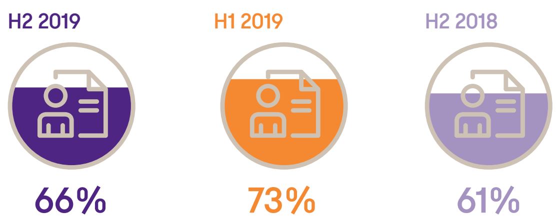
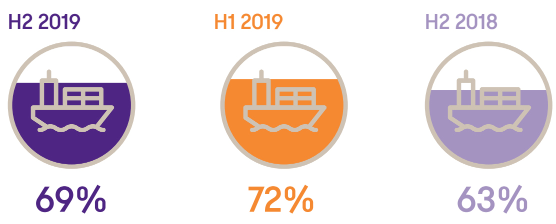


Figure 15: Percentage of business leaders expecting an increase in exports over the next 12 months



Expectations for investment in tangible assets strong

Business expectations for investment have improved considerably across tangible and intangible assets, reflecting the underlying optimism felt by mid-market business leaders.

Investment in new buildings

57% of Indian business leaders surveyed in H2 2019 are optimistic about investment in new buildings.

As a result, India ranked 4th among all economies surveyed in optimism regarding investments in new buildings, following Vietnam, Nigeria and Indonesia.

Investment in plant and machinery

61% of Indian business leaders expect to increase investment in plant and machinery in H2 2019, down slightly from 64% in H1 2019.

This highlights business leaders' sentiment that the economy is recovering from the demand slowdown witnessed in the first half of 2019, and that existing capacity utilisation will increase, making way for the need for expansion.

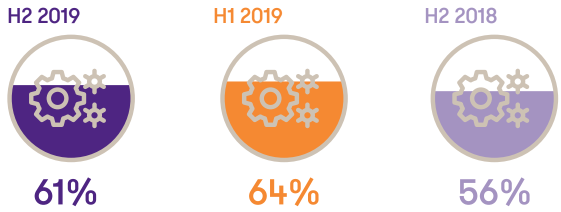
Investment sentiment in tangible assets in India continues to be higher than global levels

New buildings

Figure 16: Percentage of business leaders expecting to increase investment in new buildings over the next 12 months

Plant and machinery

Figure 17: Percentage of business leaders expecting to increase investment in plant and machinery over the next 12 months



Businesses plan to invest more in skills and R&D

Investment in staff skills

60% of Indian companies surveyed in H2 2019 expect to increase investment in staff skills compared to 52% in the overall APAC region.

Indian companies are increasingly seeing spends on staff training as an investment rather an expense, with departments such as sales, operations, engineering and manufacturing and IT receiving the largest share of spending.

Investment in R&D

Indian mid-market businesses are positive towards investment in R&D. According to the IBR survey, India ranks 5th globally on percentage of business leaders expecting to increase investment in R&D.

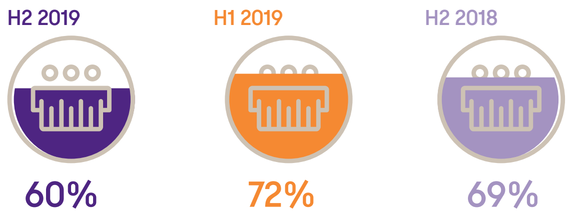
66% of the business leaders in India expect to increase R&D spending, which is significantly higher compared to APAC (53%), Emerging APAC (63%), and the BRIC (61%). Impetus on R&D by businesses in India is growing, with percentage of businesses expecting to increase R&D investment reaching its highest level in the IBR survey in 2019.

The government is facilitating R&D efforts by making publicly funded research facilities available for Indian businesses. The Indian Science, Technology and Engineering Facilities Map (I-STEM) Portal, which will soon become operational, will enable a number of key research facilities operating under the Defence Research and Development Organisation (DRDO), Indian Space Research Organisation (ISRO) and Council for Scientific and Industrial Research to be used for private research projects.

Despite a slight decline, Indian investment expectation in staff skills stands above global and regional levels

Staff skills

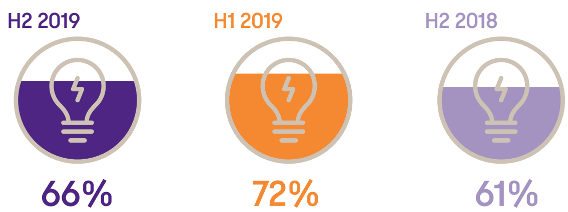
Figure 18: Percentage of business leaders expecting to increase investment in staff skills over the next 12 months



India among top 5 economies globally on percentage of businesses expecting to increase R&D spends

R&D

Figure 19: Percentage of business leaders expecting to increase investment in R&D over the next 12 months



Putting India on the global map

Investment in technology

Investments in technology provide a number of advantages to businesses, including increased efficiency and cost savings. According to the IBR survey, Indian businesses have a strong inclination towards investment in technology.

72% of the business leaders in India expect to increase investment in information technology over the coming year, which is significantly higher than the number of businesses in APAC (55%), Emerging APAC (63%) and BRIC (62%). India's appetite for investment in technology is higher than the global average as well, which stands at 55%.

In particular, businesses are actively investing in technologies such as analytics, chatbots, artificial intelligence and machine learning to automate repetitive tasks, allowing their workforce to concentrate on strategic activities.

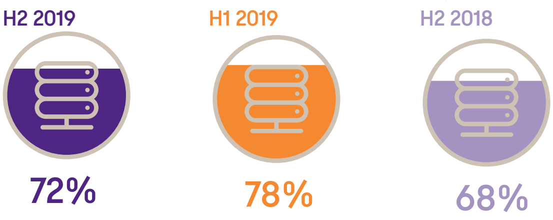
> The audit profession is in need of a massive transformation in terms of what the audit deliverable is, how it is delivered, as well as how transparently that is communicated, to meet the expectations of the stakeholders. Audit in the future will see auditors using newer technologies including block chain and artificial intelligence, among others, for not only more comprehensive data analysis but also possibly in making professional judgements in order to provide more robust assurance.

David Jones
Chartered Accountant

Amidst rising global sentiment to increase technology investment, India registers a slight decline

Technology

Figure 20: Percentage of business leaders expecting to increase investment in technology over the next 12 months



Growth constraints to watch out for

Business leaders in India have identified red tape, shortage of finance, and availability of skilled workforce as key constraints to expanding business in the country.

Regulations and red tape

61% of Indian business leaders surveyed in H2 2019 claimed that regulation and red tape are key constraints to expanding business, down 1 percentage point from 62% H1 2019.

India ranked 3rd among all economies surveyed where red tape is a constraint, with results far higher than the global and APAC results, which stood at 43% and 37% respectively in H2 2019.

The government has taken steps to eliminate red tape, by attempting to streamline regulations as well as tackling corruption and tax evasion. The latest measure to reduce red tape, introduced by the government in the first budget of its second term, is a new system of faceless assessment of tax returns to reduce interactions between taxpayers and the tax department, thereby reducing undesirable practices on the part of tax officials.

"Corporate governance is expected to play a vital role in the current changing regulatory and risk landscape. Though technology has been an enabler for enhanced risk assessment across functions, it has also led to challenges such as cyber-related concerns. While compliance with laws and regulations is an integral part of any governance framework, there lies an immense opportunity for progressive boards to collectively work on more transparent corporate governance practices to minimise corporate risk. This includes promoting a culture of integrity and ethics, tapping into key stakeholder groups, creating enough scope for a healthy debate, and adopting industry leading risk control practices that are both competitive and sustainable."

Dinesh Anand
National Managing Partner, Risk and
Global Private Equity Leader
Grant Thornton India LLP

Obstacles on road to growth

Regulations and red tape

Figure 21: Percentage of business leaders expecting regulations and red tape to be a constraint for business growth

H2 2019

61%

Availability of skilled labour

Figure 22: Percentage of business leaders expecting availability of skilled labour to be a constraint for business growth

H2 2019

64%

Rising labour costs

Figure 23: Percentage of business leaders expecting rising labour costs to be a constraint for business growth

H2 2019

58%

Shortage of finance

Figure 24: Percentage of business leaders expecting shortage of finance to be a constraint for business growth

H2 2019

58%

Availability of skilled labour and rising labour costs

64% of companies surveyed in H2 2019 cited availability of skilled manpower as a constraint to expanding business. In addition, 58% cited that rising costs of labour would impact their ability to expand their businesses.

Among all countries surveyed, India had the highest proportion of businesses claiming that availability of skilled labour and rising labour costs were key issues constraining business growth. India's results for lack of skilled labour were well above the global and APAC average of 46% and 48% respectively.

A study by the World Economic Forum has predicted that 54% of India's workers across 12 industries will have to be reskilled by 2022 to maintain the current productivity levels. Increasing private sector spending on training as well as initiatives such as PMKVY and the Skill India movement may help to mitigate the impact of this constraint.

Shortage of finance

Finance plays a key role in enabling businesses to execute their growth plans. However, the survey findings show that India ranks 2nd out of 32 countries surveyed in number of businesses expecting shortage of finance to be a growth constraint. The proportion of firms expecting shortage of finance to be a constraint to business growth stood at 58% in H2 2019, 1 percentage point down from 59% in H1 2019.

Over the last year, lack of liquidity has been a key concern facing the Indian economy. NBFC lending dropped significantly as financial organisations attempted to reduce their exposure to bad loans. This has particularly affected small and medium businesses for whom credit from NBFCs is an integral part of operations. However, measures taken by the government and RBI to infuse capital into the banking sector as well as increase the liquidity flow to NBFCs are expected to alleviate this challenge and boost credit availability.

Transport infrastructure

58% of Indian mid-market businesses surveyed in H2 2019 claimed lack of transport infrastructure to be a key growth constraint. India ranked 1st among all economies surveyed in finding transport infrastructure as an impediment to growth.

Recognising this challenge, the government is pushing the peddle on public infrastructure development. The Bharatmala Pariyojana programme is expected to optimise the transport and freight network across the country, with the development of 66,100 km of economic corridors, border and coastal roads, and expressways. The programme is expected to see USD 82 billion of investment by 2022.

Fall in demand

A fall in demand directly relates to a fall in revenue of companies, impacting their profitability and survival in the market. In H2 2019, India ranked 1st in expecting a shortage of orders to be a growth constraint. 60% of business leaders recognised this as a constraint to growth, up 2 percentage points from H1 2019.

India's results are in contrast with the findings for the APAC region as a whole, where the expectation of a shortage in business fell to 46% in H2 2019, 4 percentage points lower than the start of 2019.

Given the proactive steps being taken by the government to tackle challenges and boost demand, this constraint is expected to be a short-term challenge.

"The Indian automobile industry witnessed a slowdown in 2018 as a result of the plans to leapfrog to BS VI emission standards and promote the use of electric vehicles. The situation continued till 2019 and worsened with sales volumes plunging. New and alternative forms of vehicle ownership such as subscription and e-powered ride hailing services are gaining momentum. There are strong export growth expectations for the future as well due to increasing government-led initiatives for alternative fuel power-trains."

Saket Mehra
Partner and Automotive Sector Leader
Grant Thornton India LLP

Economic uncertainty

In H2 2019, India ranked 4th out of all countries surveyed in expecting economic uncertainty to be a growth constraint. 61% of business leaders stated that this was a major constraint to growth.

Although this is higher than the global figure (49%) and regional figure for APAC (50%), India's results have actually shown a 2 percentage point improvement from H1 2019.

Energy costs

In H2 2019, India ranked 1st out of all countries surveyed in expecting energy costs to be a growth constraint. 58% of business leaders surveyed cited that this was a major constraint to growth.

This is higher than the global and APAC figure, which stands at 40%.

Obstacles on road to growth

Transport infrastructure

Figure 25: Percentage of business leaders expecting transport infrastructure to be a constraint for business growth

H2 2019

58%

Fall in demand

Figure 26: Percentage of business leaders expecting a fall in demand to be a constraint for business growth

H2 2019

60%

Economic uncertainity

Figure 27: Percentage of business leaders expecting economic uncertainty to be a constraint for business growth

H2 2019

61%

Energy costs

Figure 28: Percentage of business leaders expecting energy costs to be a constraint for business growth

H2 2019

58%

Reform and policy momentum: Ensuring sustainable growth

Deep dive into growth factors

Economic growth to pick up gradually

It is obvious that the Indian economy is still facing headwinds from an uncertain global growth outlook, longer-than-expected deleveraging process of banks and corporates, hampered policy transmission, tight credit conditions and weak investments.

High-frequency data indicates that GDP growth in the fiscal year 2019-20 (April 2019 to March 2020) for India will remain below potential at around 5%.

Our survey results also reflect that about 70% of the business leaders are slightly-to-very optimistic about the growth prospects of the Indian economy. Business optimism is vital to start the private investment cycle for sustainable growth.

IBC has been a game-changer

Enacted in May 2016, the IBC has helped in the resolution of NPAs as it provides a framework for time-bound insolvency resolution. Till 30 June 2019, financial creditors had filed claims worth USD 35.66 billion under IBC. Total recovery has been USD 15.22 billion with a recovery rate of 42.8%. The average time taken for resolution has been around 324 days, higher than the 270 days mandated. Still, this is much lower than the 4.3 year resolution timeline before the IBC.

In a landmark judgement on 15 November 2019, the Supreme Court cleared the hurdles for a global steel giant to take over a company in the same segment for USD 5.91 billion. This is the biggest takeover of bad loans in Indian corporate history. This judgement will boost the success of the IBC, speed up the resolution of other cases, and help Indian banks attract foreign capital to clean-up their bad loans.

A change in the IBC late last year allowed coverage of NBFCs with assets of USD 70.5 million or more, paving the way for RBI to supersede the board of a leading housing finance company on governance concerns and defaults. The firm will be the first financial company to be taken to the National Company Law Tribunal under the IBC.

GST: Taking things from ‘good’ to ‘great’

Implemented on 1 July 2017, GST is one of the biggest indirect tax reforms in the country. Manufacturers, traders and service providers across India are now placed under one unified tax umbrella and no longer need to work with a tedious array of 17 central and state taxes and 23 cesses. The implementation of GST, which required setting up the right level of IT infrastructure and training of tax officials was not easy. The shift from the previous tax regime and the process of carrying forward the input credits into GST has also been challenging for businesses.

What can be improved

- Low client preparedness for GST
- Lack of clarity on GST provisions
- Significant increase in the number of returns to be filed annually
- Preparedness of IT systems of businesses
- Lack of skilled resources and need for re-skilling to handle complexities of GST

According to the IBR survey results about 77% of business leaders feel that the GST law has achieved its objective of simplifying the indirect tax regulations in India.

Ease of doing business ranking: Walking the talk

Five years of significant economic reforms and the introduction of a new indirect tax system have helped India steadily improve its ranking in 'ease of doing business'. From 142 in 2014 to 77 in 2018 to 63 in 2019 (World Bank's 'Doing Business' 2020 report), India has come a long way.

What can be improved

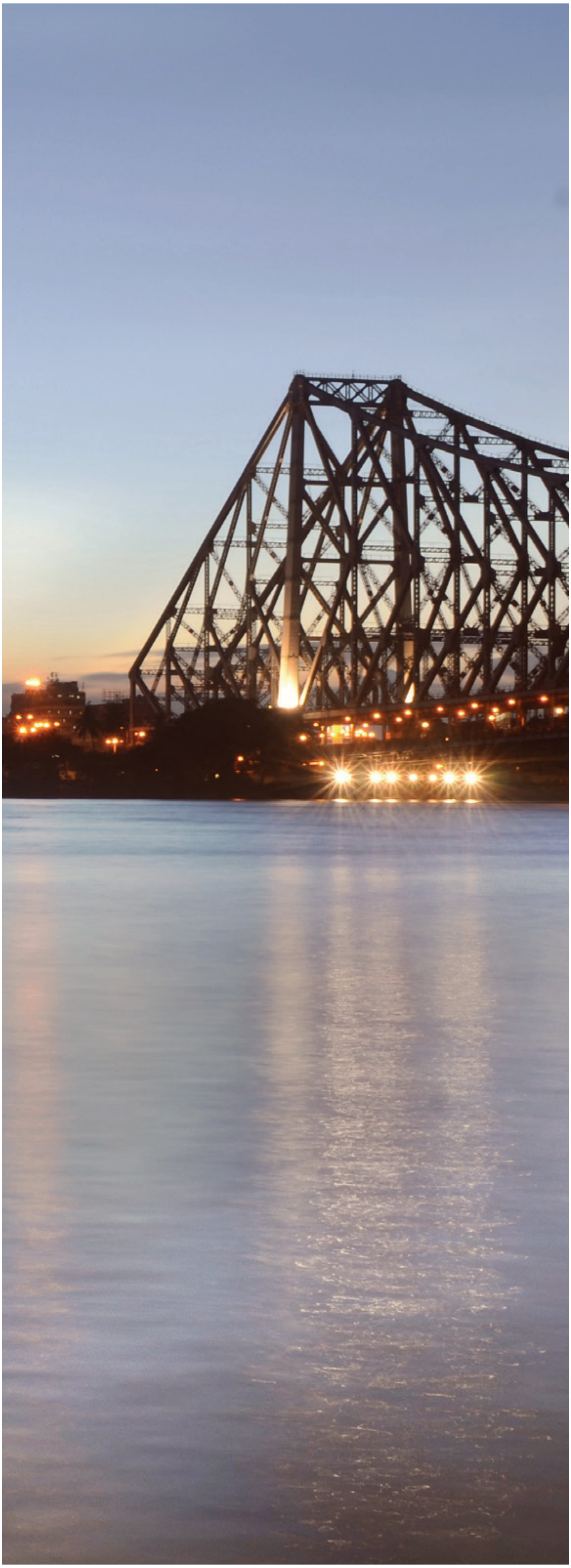
Key parameters in the blueprint set out by the Ministry of Commerce and Industry to improve India's position in the World Bank's Ease of Doing Business ranking include:

- Enforcing contracts
- Resolving insolvency
- Starting a business
- Registering property
- Paying taxes
- Trading across borders

Our survey results show that almost 79% of business leaders believe that the government has taken enough measures on the policy front to enhance the 'ease of doing business' in India.

"The US is the 6th largest FDI investor in India and the largest trade partner, with bilateral trade between the two countries currently at ~USD 140 billion and a broad target of doubling to USD 280 billion in the next five years. Companies from the US are beginning to better understand the complexities of doing business in India, reflected in increasing deal activity between the two countries. The strategic partnership between the two countries is reflective of increasing investments from US companies in India, particularly in mid-market companies, as well as growing opportunities for collaboration in sectors such as defence, energy and life sciences, amongst others."

Siddhartha Nigam
National Managing Partner, Growth and Clients & Markets
Grant Thornton Advisory Private Limited



Union Budget 2020: What lies ahead

The Union Budget 2020-21 is expected to focus primarily on boosting growth, consumption and employment. In India, the Budget is considered a platform to make important policy announcements and provide a roadmap for upcoming reforms. The government may push the timeline to achieve the 3% deficit target further. The economy needs some fiscal pump-priming at this stage to reach its potential growth.

Muted growth will prompt the government to take advantage of the 'escape clause' provided in the Fiscal Responsibility and Budget Management (FRBM) Act, which allows the fiscal deficit to move 0.5 % of GDP above the target.

Tax measures

The government recently enacted the Taxation Laws (Amendment) Act 2019 (Amendment Act) on 11 December 2019 (effective from 20 September 2019), wherein it reduced the corporate tax rates for certain domestic companies to 22% and new domestic manufacturing companies to 15%, subject to the fulfilment of specified conditions. This was a welcome move to boost investment, stimulate growth and generate employment in the economy.

The focus in Budget 2020 may shift to raising disposable income in order to spur consumption. The key expectations from the Budget are reduction of personal tax rates and dividend distribution tax.

Some rationalising of long-term capital gains tax and securities transaction tax is also expected.

Measures to improve factors of production

Efficient factors of production - capital, labour and land - are necessary to improve competitiveness. The government has already announced plans for strategic divestment of public sector companies. Privatising large loss-making public sector undertakings, unlocking their value and monetising public assets will provide much-needed capital to the government to increase expenditure to revive growth. The government can also signal its willingness to change India's rigid labour laws and simplify land-acquisition costs to attract foreign investors.

Focus on employment-generating sectors

With constraints on revenue collection, we do not expect any sweeping fiscal incentives. It is expected that high employment generating sectors like real estate, construction, textile and food processing would be incentivised.

Infrastructure accounts for about 30% of construction activity. As private sector investment in construction may take time to recover, we expect that the government would continue to focus on infrastructure investment or capital expenditure.

Heal the financial sector

The financial sector is the backbone of the economy. Strengthening the banking sector and ring-fencing the systematically important NBFCs (National Banking and Financial Companies) are crucial at this juncture. We can expect more capital infusion and reforms in the financial sector. The Indian financial system is also going through an unprecedented clean-up. From auditors and rating agencies to banks and funds, everyone is tightening standards which will be beneficial in the long term and give greater confidence to the markets.

"Governments across the globe are under pressure to augment their revenue collections. The slowing economic growth and the evolving business models have forced the regulators to re-evaluate their existing approach and come out with a collective response to address the situation. Thus, new concepts like digitalisation tax, equalisation levy, tariff wars, unified approach, etc. are coming to the forefront."

Vikas Vasal
National Managing Partner, Tax
Grant Thornton India LLP

IBR methodology

The IBR is the world's leading survey of mid-market companies. The research takes place twice a year and involves online and telephone interviews with around 10,000 businesses across more than 30 economies.

Timing

The latest wave of IBR research took place in October and November 2019. This data relates to the latter half of the year and is referred to as 'H2 2019'. It compares directly with data from the first half of 2019 or 'H1 2019'. Prior to H2 2018, the research took place quarterly. All previous waves are comparable.

Interviewees

We conduct online and telephone interviews with chief executive officers, managing directors, chairpersons or other senior executives from mid-market companies in all industry sectors.

Appendix

About Grant Thornton in India

Grant Thornton in India is a member of Grant Thornton International Ltd. It has 4,500+ people across 15 offices around the country, including major metros. Grant Thornton in India is at the forefront of helping reshape the values in our profession and in the process help shape a more vibrant Indian economy. Grant Thornton in India aims to be the most promoted firm in providing robust compliance services to dynamic Indian global companies, and to help them navigate the challenges of growth as they globalise. Firm's proactive teams, led by accessible and approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients, and help them find growth solutions.

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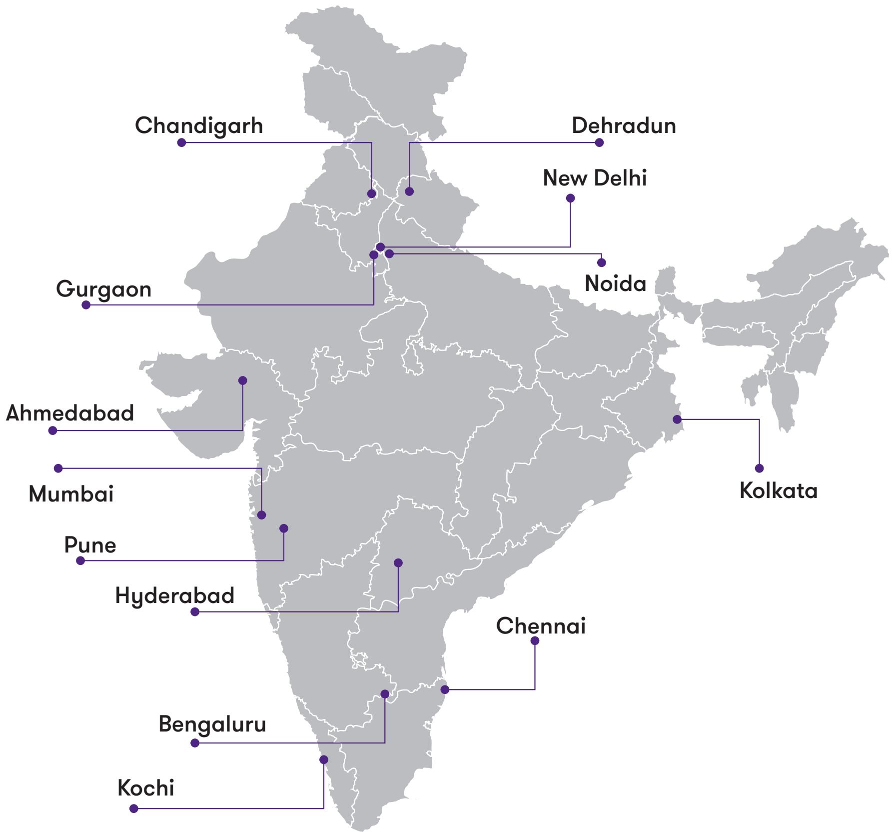

Know more about Grant Thornton in India by scanning this code

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