



Business Confidence Survey

September 2018

Business Confidence Survey

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Summary

Capacity utilization rate sees an improvement

Rising raw material costs continue to be worrisome

81% respondents report an increase in energy costs

Overall Confidence level dips on back of escalation in external pressures on macro-economic environment

- The **latest round of FICCI's Business Confidence Survey cited an improvement in capacity utilisation rates and investment intentions going ahead.** About 45% participants said that they foresee higher to much higher investments over the coming six months vis-à-vis 38% who stated likewise in the last survey. Further, the proportion of respondents citing capacity utilization of over 75% has risen discernibly in the current round.
- Nonetheless in context of investments, it is pertinent to note that while firms may plan for greater outlays on investments, there are factors that could impede this movement. Chief amongst these factors is the capacity of the banking sector to support investment proposals of corporate India.
- While corporates do remain highly leveraged, signs of a pick up in demand bodes well and is driving industry members to consider fresh investments. **About 49% respondents stated weak demand as a bothering factor in the present survey round vis-à-vis 51% stating likewise in the previous round.** The forthcoming festive season is expected to give an impetus to consumption activity.
- Further, resolution of NPAs and support offered by the government for recapitalisation of banks is opening up avenues for further lending, even though banks remain highly cautious about extending fresh loans.
- **However, an overwhelming large proportion of companies surveyed by FICCI have mentioned that banks have become overly cautious in their dealings with corporates and the loan approval process has become both complex and time consuming.** Cases of misappropriation of funds in the banking sector, as reported earlier this year, have taken a toll on the overall credit and lending environment with banks becoming increasingly reluctant to extend fresh credit especially to the already stressed sectors. **As many as 80% of the firms surveyed by FICCI echoed this view and highlighted that this does not bode well for the investment cycle in the economy.**
- **Members of industry are gearing up to tap resources from other channels such as NBFCs, ECBs, issuance of commercial paper, non-convertible debentures etc.**
- Further, on most operational parameters – including sales, profits and employment – industry has reported a continuation of the same trend as was seen in the previous survey. However, in case of exports we see a movement in the other direction with a larger proportion of participating firms expecting weaker performance in the coming six months.

Overall Business Confidence Index drops to 65.4

Rising raw material costs continue to be a major challenge

Improvement in near term investment outlook

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- The outlook on employment remained unchanged in the present survey. About 33% of the participating companies said that they foresee a rise in hiring activity over coming two quarters - which was the same as previous round.
- Additionally, the latest round of FICCI's Business Confidence Survey reveals moderation in overall optimism among members of India Inc. The moderation comes on back of escalating external pressures on the macro economic environment. **The Overall Business Confidence Index stood at 65.4 in the current round vis-à-vis an index value of 71.0 reported in the last survey.**
- Rising oil prices, weakening Rupee and increasing protectionist measures in some of the large developed economies are posing a risk to India's growth prospects. These factors are exerting pressure on production costs and are likely to impact the earning prospects of companies. In fact, **current survey results reported no change in near term profit outlook of companies**
- **Rise in raw material costs is a matter of concern for majority of the survey participants with around 63% of the respondents stating rising cost of raw materials to be a constraining factor.** The corresponding number in the previous round was 70%.

The respondents were also asked to share their opinion on certain contemporary issues including the impact of surge in energy prices and a depreciating Rupee, evolving credit situation and global developments.

Impact of surge in oil prices and depreciating Rupee

- A majority of respondents reported that the surge in oil prices coupled with fall in the domestic currency is impacting their production costs. Around 81% respondents cited that they have experienced an increase in energy costs. Out of these, about 61% respondents said that the increase was between zero to ten percent since the last quarter, and about 19% felt that the increase was greater than ten percent.
- However, respondents were unsure about the strategy they would adopt to deal with the higher costs. They were divided upon whether to absorb any increment in total costs or pass it on to customers.
- While many believed that they would fully or partially absorb the pressure of rising costs, which will ultimately impact their profitability; some respondents indicated that they would pass on the costs to consumers by increasing prices. However, this will not be an easy option given that the demand situation has just begun to improve

Respondents foresee higher investments over the next six months....

Employment outlook remains unchanged....

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- Many participating companies said that there is a need to keep continued focus on improving productivity and efficiency to deal with the issue of rising costs. Given the present scenario, where demand has not fully picked up but cost pressures have increased, companies felt a need for improving their sales and aim for higher production to partially offset increasing costs by lowering per unit overhead costs.
- Simultaneously, companies have also become watchful about rising costs from other segments and are trying to minimize any wastages. They are also looking out for alternative/ renewable sources of energy to bring down energy and related costs.
- Further, companies are hedging foreign currency exposure to deal with the volatility/ depreciation of the Rupee.

Views on credit situation

- A majority of the participating companies indicated greater reluctance from banks in extending fresh credit, especially to the already stressed sectors. About 80% of the respondents mentioned that banks have become increasingly cautious about extending credit to the industry.
- Participants felt that delays in decision making and unwillingness of banks to come forward and lend is affecting the working capital and growth of the industry – primarily the MSMEs. Credit appraisal and approval processes seem to have come to a standstill.
- Further, discontinuance of Letter of Undertaking and withdrawal of buyers' credit facility by the central bank is causing serious problems for the industry leading to a cascading effect on fund flows.
- Respondents recommended that the legal system and enforcement must become more stringent to deter willful defaulters. The participating companies felt that while quick disposal of NPAs must be ensured; banks must be adequately capitalized to bring the lending cycle back on track.
- While banks continue to be an important source of funding for firms, many of them did cite various other sources to fund their needs. These included raising money from equity, commercial paper, external commercial borrowings, non-banking financial companies, internal accruals, market borrowing and non-convertible debentures. Many participants also indicated raising funds internally and managing within these self generated resources for the time being.

Views on global trade developments

- Participating companies opined that developments on global trade have the potential to upset the current ecosystem governing trade and currency movements in the world. Trade wars will distort the system and will not benefit any country in the long run.

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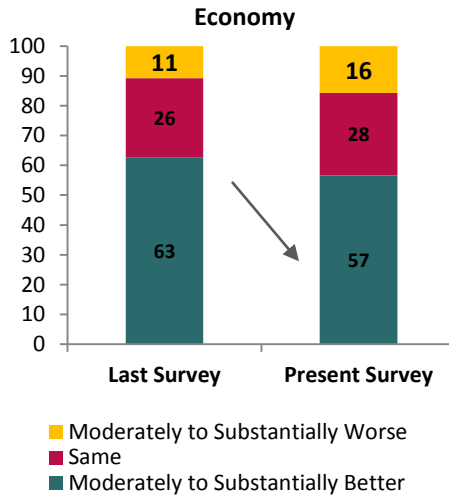
Summary

- As far as impact of these developments on India was concerned, majority of participating companies agreed that because of a strong domestic market, India is relatively shielded. However, this does not completely cushion the country from developments in the world economy. Greater protectionism can cause an imbalance in the macroeconomic fundamentals of the country.
- The participating companies unanimously agreed on an urgent need to protect India from becoming a dumping ground for all countries impacted by the higher tariffs, especially Chinese goods. They called for adequate protection and pro-active measures to safeguard the domestic industry, even established ones, from such highly probable instances.
- Respondents suggested that India must continue to strengthen its Make in India policy. Increasing domestic production to meet internal consumption needs is the best way forward.
- Given the impact of tariffs, companies said that even though imposition of tariffs was universal to all, it is necessary for India Inc. to enhance its export competitiveness. This could be supplemented by government policies that provide additional fiscal sops to exporters.
- Further, participants indicated that with major economies standing against each other on tariff issues, India must adopt a conciliatory approach. Along side, India must also look at diversifying its export markets and must increasingly look into enhancing trade ties with countries in Africa and Latin America.
- Respondents believed that trade wars are normally a process of posturing and are temporary in nature as no major country can afford a long drawn dispute due to higher costs involved for all concerned. Negotiating a compromise will be the best and only option to resolve the matter.
- Respondents agreed that as a general principle, a rule based multi-lateral trading system is the best vehicle for international trade and economic growth and all efforts must be made to ensure that multilateralism prevails.

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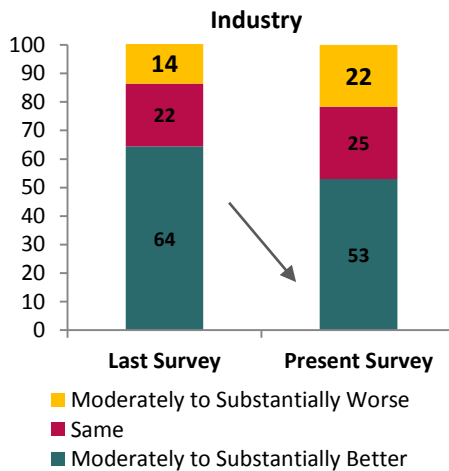
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Current conditions vis-à-vis last six months



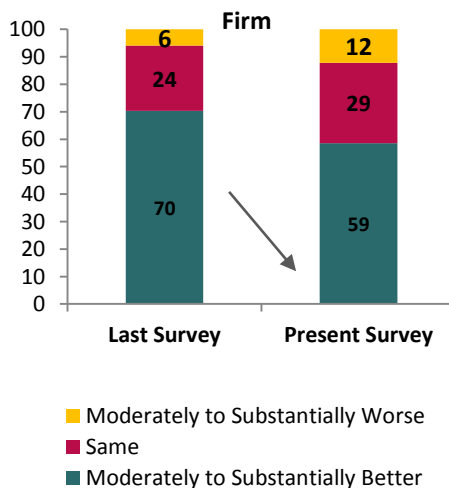
FICCI's latest Business Confidence Survey reports a moderation in the assessment of respondents with regard to current conditions at all three levels - economy, industry and firm - compared to last six months.

The proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined to 57% in the present survey vis-à-vis 63% respondents stating likewise in the previous round.



About 53% respondents at industry level reported improved current conditions vis-à-vis last six months as compared to 64% participants reporting likewise in the previous round.

At firm level, 59% respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months. This figure was again lower than the proportion of respondents who reported likewise in the previous survey.



Moreover, an increase was noted in the proportion of respondents reporting no change in the current conditions vis-à-vis last six months at all three levels – economy, industry and firm.

An increase was also noticed in the percentage of participants who reported current conditions to be worsening as compared to last six months.

Assessment of respondents with regard to current conditions vis-à-vis last six months report moderation at all three levels....

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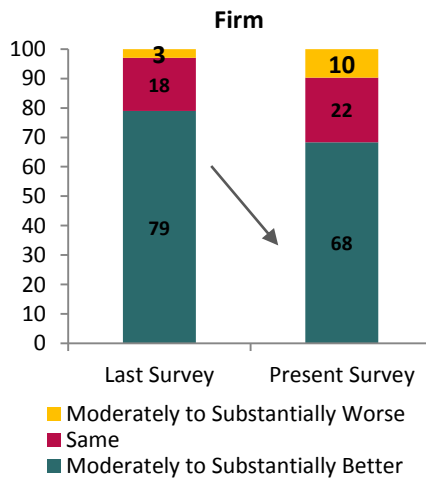
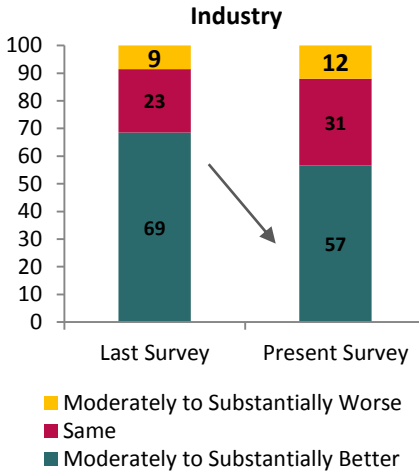
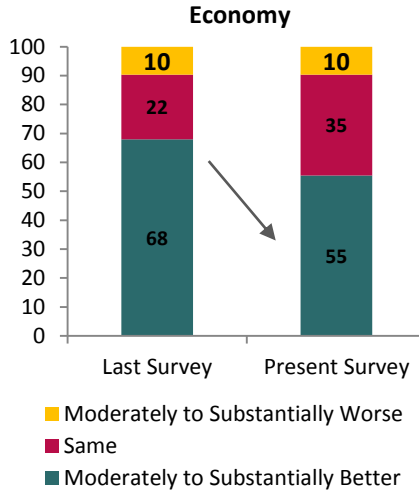
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Expected conditions over next six months

Results of the latest survey reported a moderation in optimism level of respondents about near term prospects at the economy, industry and firm level.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over the next six months moderated to 55% in the current survey compared to 68% who reported likewise in the previous round.

On the other hand, 57% and 68% of the surveyed companies reported that they expect an improved performance over the coming six months at industry and firm level. The corresponding number in the previous round was 69% and 79% respectively.



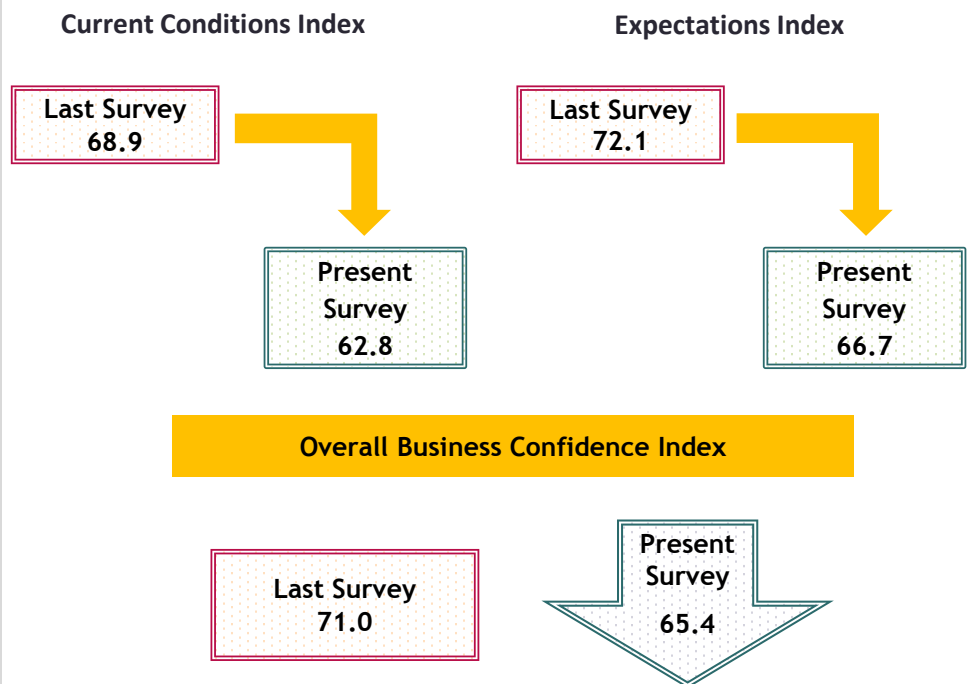
Respondents report moderation in expectations with regard to performance over the period July – December 2018....

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Business Confidence Index

Overall Business Confidence Index



OBCI dipped to 65.4 in the current survey vis-à-vis a value of 71.0 noted in the previous round...

...Moderation in both Current Conditions Index and Expectations Index has led to the decline

Overall Business Confidence Index fell by about 6 points in the present round and stood at 65.4. The corresponding number in the previous round was 71.0.

The assessment of respondents with regard to current conditions as well as expectations was subdued in the latest survey round.

The economy is facing several headwinds emanating from external forces. Rise in international crude oil prices have been putting pressure on input prices. In addition, adoption of protectionist policies by some major economies is continuing to build an environment of uncertainty with regard to global trade flows. On the domestic side, rise in cost of credit on back of various external and internal factors (such as foreign investment outflows, inflationary pressures) is also impacting businesses.

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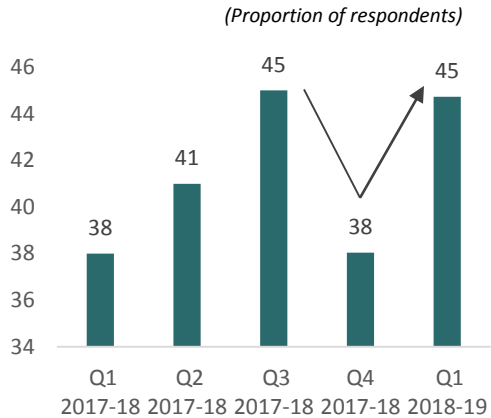
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Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments in the coming six months witnessed an increase in the current survey vis-à-vis the previous round.

In the current survey, 45% participating companies anticipated an increase in investments during the period July to December 2018. The corresponding number in the previous round was 38%.



While corporates do remain highly leveraged, signs of a pick up in demand bodes well and is driving industry members to consider fresh investments. Further, resolution of NPAs and capitalisation support by the government is opening up some space for lending by banks, even though banks remain highly cautious about extending fresh loans.

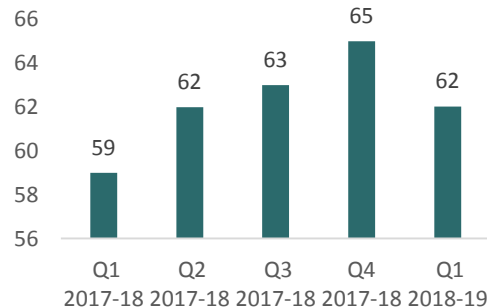
Further, proportion of respondents citing capacity utilization of over 75% has risen in the current round.

Investment outlook improves....

Pick up in demand and higher capacity utilization rates supporting investment plans....

Sales

(Proportion of respondents)



Latest survey results report some moderation in the outlook of respondents with respect to sales.

62% participating companies anticipated an increase in sales over next two quarters, vis-à-vis 65% stating likewise in the previous round.

Moderation in near term sales prospects...



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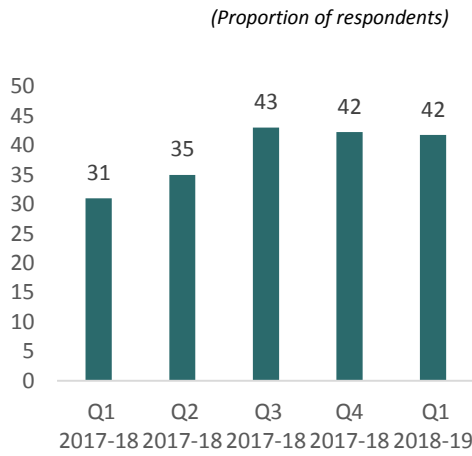
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Operational Parameters

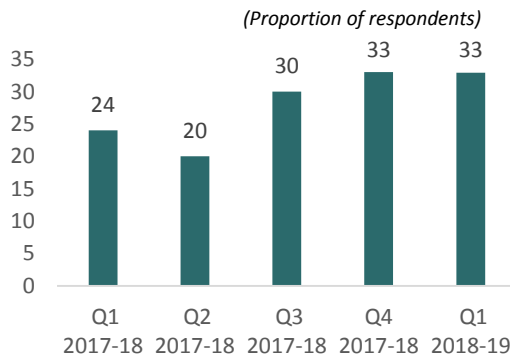
Profits

In the present survey, no change was noted in the profit outlook of companies. Proportion of respondents citing higher profits over next six months stood at 42% for the latest round.

Higher input prices on back of rising global commodity prices along with a weakening Rupee is adding to the overall cost of production which is expected to further impact earnings.



Survey results indicate no change in the outlook on profits...



Employment

As per the latest survey, outlook on employment generation also shows no change.

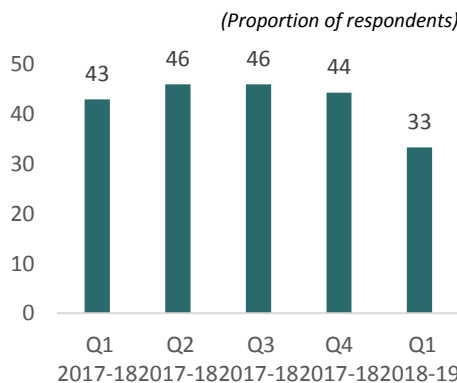
In the present round, about 33% respondents said that they foresee hiring new employees over the next six months; which was the same as previous round.

Employment prospects too show no change...

Exports

In the latest survey, only 33% respondents said that they foresee higher to much higher outbound shipments during the period July to December 2018. The corresponding number in the previous round was 44%.

Increase in protectionist measures across countries is dampening sentiments with respect to global trade.



Outlook on exports deteriorates amidst rising protectionism

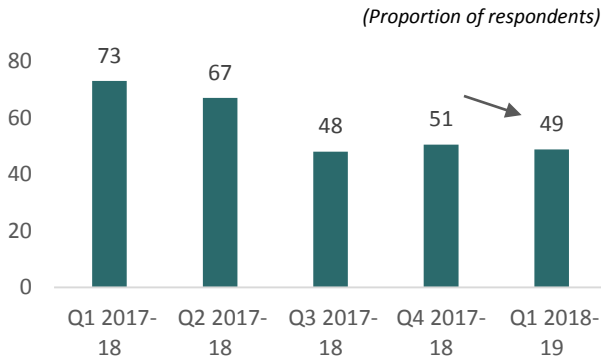
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Constraining Factors

Proportion of respondents citing weak demand as a constraining factor witness slight moderation

According to the results of our latest survey demand conditions were seen easing after witnessing some pressure in the previous round. About 49% of the participating companies cited weak demand as a bothersome factor for their business. The corresponding number in the previous round was 51%. Companies have indicated higher investments over the period July-December 2018 on the back of rising capacity utilization and improving demand situation.



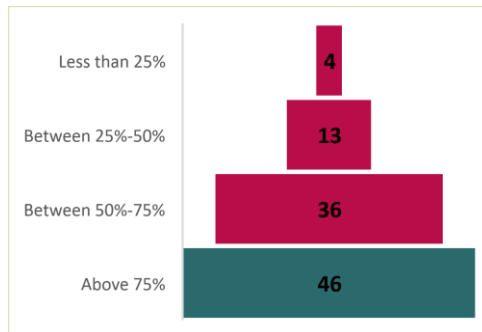
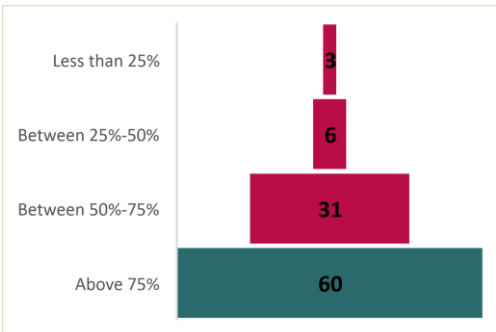
...49% respondents cite weak demand as a constraining factor...

60% respondents indicated a capacity utilization rate of over 75% in the present round which was the highest in about 27 quarters.

Capacity Utilization (Proportion of respondents)

Present Survey

Last Survey



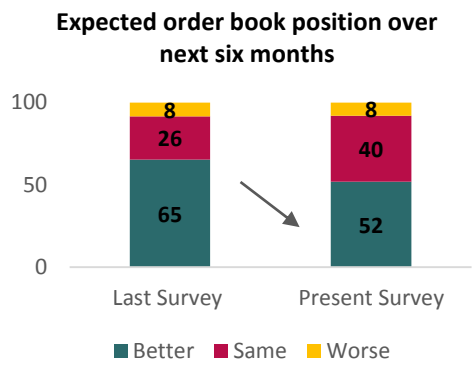
...60% respondents cited capacity utilization of more than 75% which was the highest in about 27 quarters...

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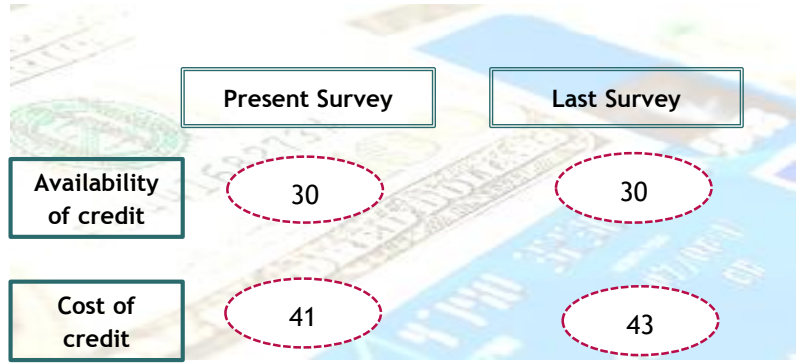
Constraining Factors

However, proportion of respondents anticipating better order books over next six months noticed moderation. 52% companies expect an improvement in their order book position in the coming six months vis-à-vis 65% who stated likewise in the previous survey.



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor declined marginally to 41% from 43% who said likewise in the previous round.



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Constraining Factors

Further, the proportion of respondents stating availability of credit as a constraining factor continues to be 30% - a figure which was also reported in the previous survey.

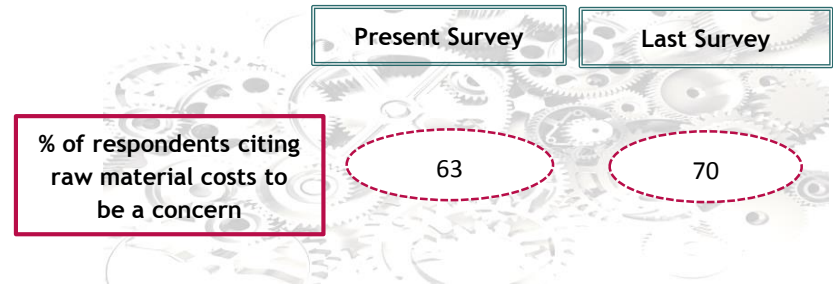
Survey findings indicate that companies are paying an average interest rate of 10.1% on term loans and an average interest rate of 10.2% on working capital loans.

Average Interest on Term Loans: 10.1%
Average Interest on Working Capital Loan 10.2%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reflected to be a constraining factor by 63% of the respondents. The corresponding figure in the previous survey round was 70%, and 45% a year back.

(Proportion of respondents)



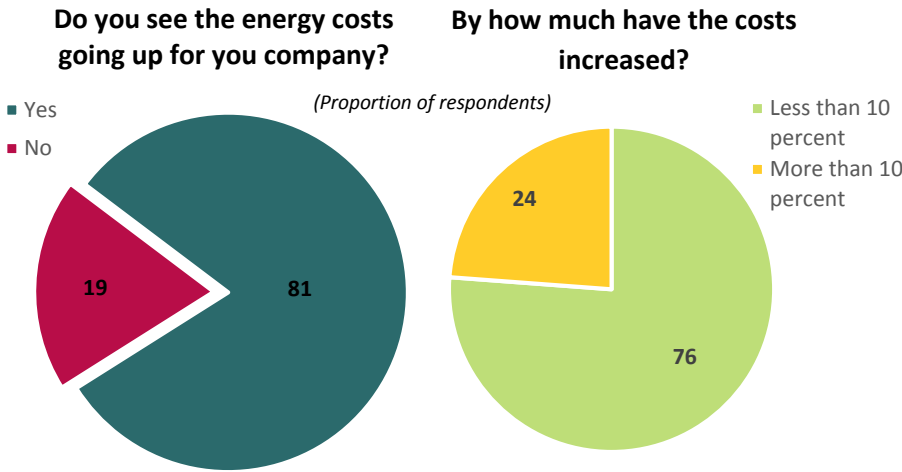
Raw material costs still posing a major challenge for companies...

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Impact of surge in oil prices and depreciating Rupee

The recent surge in oil prices and fall in Rupee value is likely to have implications on production costs of companies. Amidst this, participating companies were asked whether the energy costs have risen for them, and if so, how they were dealing with the increase in costs.



A majority of the respondents reported that the surge in oil prices coupled with a fall in the domestic currency is impacting their cost of production. Around 81% of the respondents cited that they have experienced an increase in energy costs. Out of these, about 76% of the respondents said that the increase was between zero to ten percent, and around 24% felt that the increase was greater than ten percent.

However, respondents were unsure about the strategy they would adopt to deal with the increased costs. They were divided upon whether to absorb any increment in total costs or pass it on to customers. While many believed that they would fully or partially absorb the pressure of rising costs, which will ultimately impact their profitability, there were some who said that they would pass on the rising costs to consumers by increasing prices. However, this will not be an easy option given that the demand situation has just begun to improve.

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Many participating companies said that there is a need to keep continued focus on improving productivity and efficiency to deal with the issue of rising costs. Given the present scenario, where demand has not fully picked up but cost pressures have increased, companies felt a need for improving their sales and aim for higher production to partially offset increasing costs by lowering per unit overhead costs.

Simultaneously, companies are watchful about rising costs from other segments as well and are trying to minimize any wastages. They are also looking out for alternative/renewable sources of energy to bring down energy and related costs.

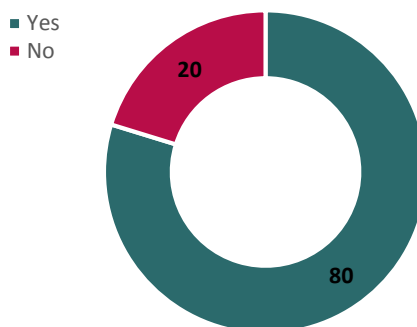
Further, companies are hedging foreign currency exposure to deal with the volatility/depreciation of the Rupee.

Views on the credit situation

It is being reported that the surge in non-performing assets and the recent cases of misappropriation of funds in the banking sector has made banks wary of extending credit to industry. Keeping this in mind, companies were asked to share their experience. Views were also sought on whether alternate sources of funding have been considered amidst a decline in the funds being sourced from banks.

A majority of the participating companies indicated greater reluctance from banks in extending fresh credit, especially to the already stressed sectors. About 80% of the respondents mentioned that banks have become increasingly cautious of extending credit to the industry.

Have the banks become wary of extending credit to the industry?



Participants felt that delays in decision making and unwillingness of banks to come forward and lend is affecting the working capital and growth of the industry – primarily the MSMEs. Credit appraisal and approval processes seems to have come to a standstill. Respondents said that with reduced capital bases, banks are constrained to enhance their exposure. Tougher verification and compliance systems are being followed as banks have become more risk averse.

Further, discontinuance of Letter of Undertaking and withdrawal of buyers' credit facility by the central bank is causing serious problems for the industry leading to a cascading effect on fund flows.

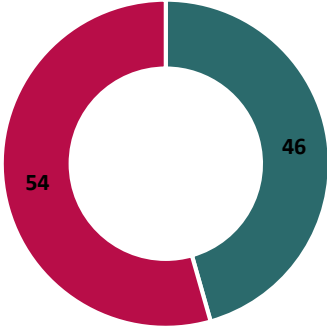
Respondents recommended that the legal system and enforcement must become more stringent to deter willful defaulters. The participating companies felt that while quick disposal of NPAs must be ensured; banks must be adequately capitalized to bring the lending cycle back on track.

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Has there been a decline in the funds being sourced from banks over the past one year?

■ Yes
■ No



In addition to the problems being faced in availing loans, companies were asked to share if they are resorting to alternate sources of funding.

While banks continue to be an important source of funding for firms, many of them did cite various other sources to fund their needs.

These included raising money from equity market, commercial paper, external commercial borrowings, non-banking financial companies, internal accruals, market borrowing and non-convertible debentures.

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Views on global trade developments

A trade war seems imminent now with retaliatory tariffs being imposed by countries after the US moved to raise tariffs on aluminum and steel imports, even from its allies- Canada, Mexico and the European Union. India has also reacted by listing out 30 US products (worth USD 235 million) on which it proposes to raise tariffs with effect from September 18, 2018. Meanwhile, China has decided to lower tariffs on 8,549 items from India and other Asian nations to address the rising trade deficit concerns. In light of this, companies were asked to share their views on these global developments and suggest ways to deal with it.

Participating companies opined that the developments on global trade have the potential to upset the current ecosystem governing trade and currency movements in the world. Such trade wars can change the dynamics of global economy and can have a negative bearing on trade balances and inflation. Trade wars will distort the system and will no benefit any country in the long run. The participants pointed out that different countries have different comparative advantages and rising protectionism will only shrink global trade movements.

As far as impact of these developments on India was concerned, majority of participating companies agreed that because of a strong domestic market, India is relatively shielded. However, this does not completely cushion the country from developments in the world economy. Greater protectionism can cause an imbalance in the macroeconomic fundamentals of the country. Furthermore, growing uncertainties in the global currency markets is also worrying.

The participating companies unanimously agreed on an urgent need to protect India from becoming a dumping ground for all countries impacted by the higher tariffs, especially Chinese goods. They called for adequate protection and pro-active measures to safeguard the domestic industry, even established ones, from such highly probable instances.

Respondents suggested that India must continue to strengthen its Make in India policy. Increasing domestic production to meet internal consumption needs is the best way forward.

Given the impact of tariffs, companies said that even though imposition of tariffs was universal to all, it is necessary for India Inc. to enhance its export competitiveness. This could be supplemented by government policies that provide additional fiscal sops to exporters.

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Further, participants indicated that with major economies standing against each other on tariff issues, India must adopt a reconciliatory approach. Alongside, India must also look at diversifying its export markets and must increasingly look into enhancing trade ties with countries in Africa and Latin America.

Respondents believed that trade wars are normally a process of posturing and are temporary in nature as no major country can afford a long drawn dispute due to higher costs involved for all concerned. Negotiating a compromise will be the best and only option to resolve the matter.

Respondents agreed that as a general principle, a rule based multi-lateral trading system is the best vehicle for international trade and economic growth and all efforts must be made to ensure that multilateralism prevails.

International platforms such as the World Trade Organization (WTO) should be effectively utilized for dealing with undue protectionism and for engaging in policy measures for promoting fair trade.

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Survey Profile

The survey drew responses from about 200 companies with a turnover ranging from Rs 1.0 crore to Rs 4.3 lakh crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period July 2018 to December 2018.

Broad Sectoral Coverage			
Chemicals	Yarns/Fabric	Textiles	Metals
Agricultural Equipment	Financial Services	Food Processing	Readymade Garments
Energy	Leather Goods	Services	Cement
Automotive	Steel & Steel Products	Industrial Machinery	Footwear
	Plastic	Pharmaceuticals	

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