



Business Confidence Survey

April 2020

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Summary

Overall Confidence Index slips and stood at its lowest levels since the Global Financial Crisis

Weak demand continues to be a major impediment for the industry

- The latest round of FICCI's Business Confidence Survey revealed sharpest moderation in the confidence level of members of India Inc since the global financial crisis. **The Overall Business Confidence Index stood at 42.9 in the current round vis-à-vis an index value of 59.0 reported in the last survey. The index value had slipped to a low of 37.8 in Q2 of 2008-09 – at time of the global financial crisis.** Sharp moderation both in current conditions as well expectations were responsible for pulling the overall index value down during the quarter.
- **Companies were less optimistic about their forecasts for operational parameters over the period April-September 2020.** In the current survey round, a sharp increase was noticed in the proportion of respondents anticipating lower sales in next six months. About 53% respondents expected lower sales over the next two quarters, vis-à-vis 17% stating the same in previous round. Likewise, an increase was noted in the proportion of respondents citing decline in investments going ahead. About 38% participants anticipated lower investments in next six months vis-a-vis 30% stating likewise in the previous round. With consumption demand plummeting amidst the nationwide lockdown, companies are seeing existing capacities being freed up. The present environment is not very conducive for undertaking fresh investments.
- The outlook on employment too worsened in the present survey. About 19% participating companies said that they foresee a rise in hiring activity over coming six months vis-à-vis 24% stating likewise in the previous round.
- On the export front, more than half of the respondents expected lower exports in the coming six months. The response is on expected lines as global supply chains stand disrupted and trade linkages have been severely impacted amidst the covid-19 pandemic outbreak.
- **Moreover in the present round, majority of respondents continued to cite worsening of the demand situation.** In the current survey, 77% participants reported weak demand conditions as a bothering factor as compared to 76% stating the same in the previous round. As a result, companies have cited worsening capacity utilization rates for the past few quarters and the same was reiterated in the latest round as well. Only 26% of the participating companies cited a capacity utilization rate of more than 75% in the current survey as compared to 28% stating likewise in the previous round. The corresponding number previous year was 52%.

Overall Business Confidence Index drops to 42.9

Near term investment outlook subdued

Outlook on major operational parameters took a beating

Weak demand a major impediment for industry participants

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- In the present round, the proportion of respondents citing availability of credit as a major concern noted a considerable increase. Around 54% respondents cited availability of credit as a bothersome factor. The corresponding number was 39% in the previous. Availability of credit has been a concern despite sufficient liquidity available in the system .

The respondents were also asked to share their opinion on the impact of Covid-19 pandemic on their business and the measures being undertaken to deal with the challenges are coming to fore.

Impact of the Covid-19 pandemic and measures to sustain businesses...

- A majority of the participating companies said that the corona virus pandemic has had an adverse impact on their businesses.
- Around 72% of the respondents said that their operations have been impacted due to the pandemic outbreak.
- In addition, 90% of the participants said that their supply chains have been severely impacted.
- The most prominent theme was inward looking that is towards meeting domestic demand and supply.
- Many participants felt that they were majorly dependant on imports for their raw materials supply and are now looking at developing alternate local supplies to meet their requirements.
- Moreover, with global supply chains coming to a stand still, participating companies are also focusing more on serving domestic customers.
- Companies are trying to be more flexible in their product mix execution.
- Apart from this, companies are watching their cash flows and liquidity closely and are undertaking requisite steps to cut costs.
- Big businesses have implemented their existing contingency and business continuity plans. Others are carrying out forecasts to implement future course of actions in maintaining inventory.
- Respondents were hopeful about the future and were of the view that the impact of Covid-19 would significantly lower over next twelve months.

Ways to overcome the difficulties posed by Covid-19 pandemic led lockdown...

- A majority of the participating companies agreed that while RBI has released a lot of liquidity in the banking system, willingness on the part of the banks to implement RBI guidelines both in letter and spirit was the need of hour.

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Suggestions for RBI...

- Reduce the repo rate by an additional 100 bps.
- Undertake direct purchase of corporate bonds.
- Direct banks to enhance credit limit by at least 25% without requiring any collateral security.
- Relax NPA norms from 90 days to 360 days.

Suggestions for Banks...

- Banks need to expedite decision making process and expedite lending.
- Adopt RBI guidelines in letter and spirit and ensure effective transmission of repo rate cuts into lower lending rates.

Suggestions for Government...

- Financial package for the entire industry (especially MSMEs) must be provided in the form of subsidies, policy support, tax holidays, special dispensation of funds to sustain employment levels before Covid-19 pandemic etc.
- Serious reform in the labor market is the need of the hour and must be taken up on priority.
- Adequate policy support and facilitation must be provided to attract all companies leaving China amidst the Covid-19 outbreak.
- The government must kick start a few large infrastructure projects to uplift credit and employment situation.
- Direct cash benefit must also be extended to MSMEs without complicated paper work.
- Credit growth and thus economic activity cannot witness an uptick unless consumption picks up. Therefore all efforts must be made to support demand.

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Expected conditions over next six months

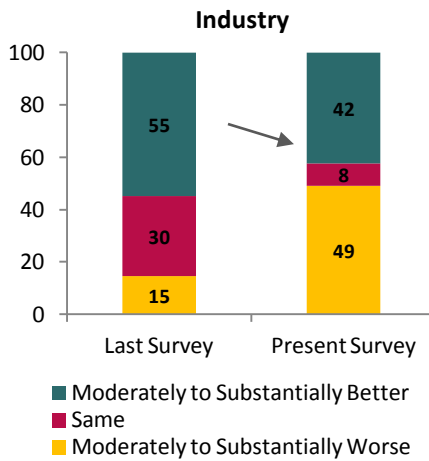
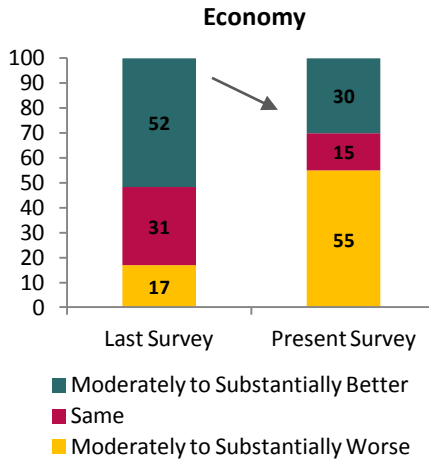
Results of the latest survey reported deterioration in the optimism level of respondents about near term prospects as well.

The proportion of respondents citing worsening in near term prospects at all three levels rose significantly in the current survey - and was about three times higher than the percentage of participants stating likewise in the previous round.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially worse' performance over next six months increased to 55% in the current round compared to just 17% participants reporting likewise in the previous survey.

Likewise, 49% of the surveyed companies reported that they expect a worsening in performance over coming six months at industry level. The corresponding number in the previous round was much lower at 15%.

Furthermore, proportion of respondents hopeful about better prospects at the firm level also witnessed a decline. About 32% of the participating companies expected a 'moderately to substantially worse' performance over the next two quarters in the current survey as compared to 10% stating the same in the previous round.



Respondents reported sharp deterioration in expectations with regard to performance during April-September 2020-21....



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Business Confidence Index

Overall Business Confidence Index

Current Conditions Index

Last Survey
49.4

Present
Survey
34.3

Expectations Index

Last Survey
63.8

Present
Survey
47.1

Overall Business Confidence Index

Last Survey
59.0

Present
Survey
42.9

OBCI witnessed its worst dip since the global financial crisis and stood 42.9 in the present survey...

...Sharp moderation noted in both Current Conditions as well as Expectations

Overall Business Confidence Index fell to its lowest level since the global financial crisis. The index value was reported at 42.9 in the present survey reflecting an adverse impact of the Covid-19 pandemic on sentiments of corporate India. The corresponding index value in the previous round was 59.0. The assessment of respondents with regard to both current conditions as well as expectations noted a marked deterioration in the latest survey round.

Global economic prospects have worsened significantly with the outbreak of coronavirus pandemic forcing the countries to adopt strict social distancing norms and lockdowns. Multilateral institutions have revised down the growth and trade forecast for the year considerably. The IMF in its recent release has downgraded global growth forecast and placed it in the contractionary zone for the year 2020. WTO too projected global merchandise trade flows to plummet anywhere between 13-32% during the year 2020.

The Indian economy was already going through a rough patch on the growth front and was also caught off guard with the sudden flaring up of the pandemic. However, timely action undertaken by the government on containing the spread of the virus should enable a quicker return to normalcy for the domestic economy at least.

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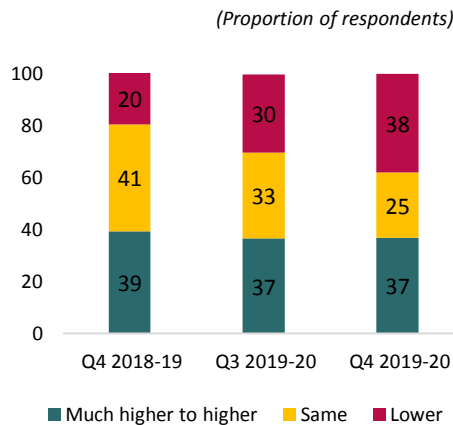
Operational Parameters

Investments

An increase was noted in the proportion of respondents citing decline in investments going ahead. About 38% participants anticipated lower investments in next six months vis-a-vis 30% stating likewise in the previous round.

However, The proportion of respondents citing 'higher to much higher' investments in the coming six months remained at similar levels in the current survey when compared to the previous round.

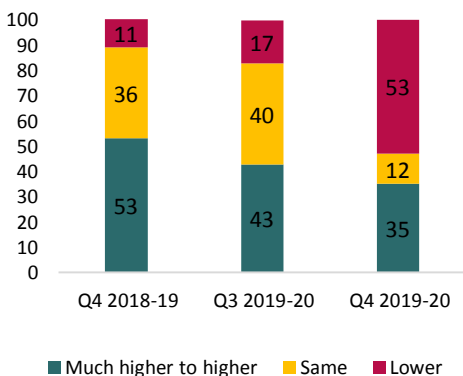
Investment outlook for companies remained subdued given the widespread uncertainty caused by the pandemic across the globe. With consumption demand plummeting amidst the nationwide lockdown, companies are yet to capitalize on their existing capacities. The present environment is not very conducive for undertaking fresh investments for many companies.



Investment outlook subdued...

Sales

(Proportion of respondents)



Latest survey results report a fall in the outlook of respondents with respect to sales.

A sharp increase was noticed in the proportion of respondents anticipating lower sales in next six months (from 17% in previous round to 53% currently).

Furthermore, only about 35% participating companies anticipated an increase in sales over next two quarters, vis-à-vis 43% respondents stating likewise in the previous round.

...Sales prospects witness deterioration...

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Operational Parameters

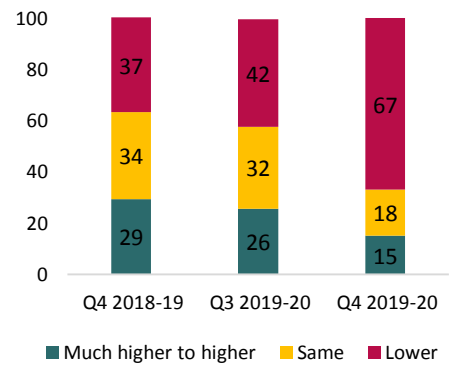
Survey results indicate deterioration in the outlook on profits...

Profits

In the present round, outlook on profits of companies has worsened significantly. Proportion of participants citing higher profits over next six months declined to 15% in the latest survey from 26% respondents stating likewise in the previous round.

Decline in sentiment around sales prospects in an environment of persisting weak demand has dampened the outlook on profits of corporate India.

(Proportion of respondents)



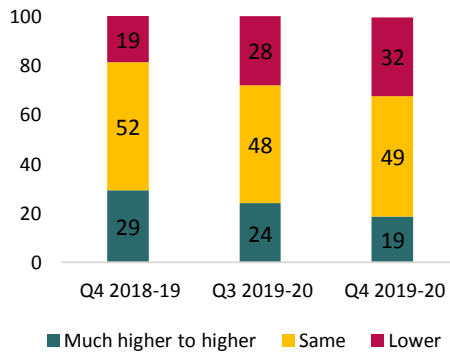
Employment

As per the latest survey results, outlook on employment worsened in the current survey round.

In the present round, only 19% respondents said that they foresee hiring new employees over the next six months, vis-à-vis 24% stating the same in the last round.

About 32% respondents cited lower employment prospects in the current round vis-à-vis 28% stating likewise in the previous round.

(Proportion of respondents)



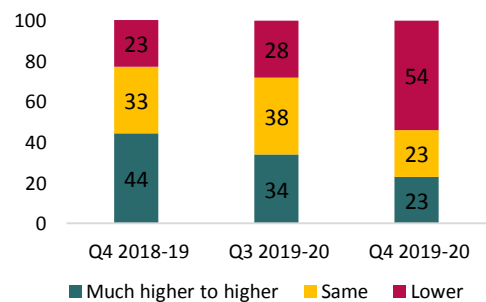
...as well as in outlook on employment and exports.

Exports

The outlook of respondents with regard to exports has deteriorated as well.

More than half of the respondents expected lower exports in the coming six months. The response is on expected lines as the global supply chains stand disrupted and trade linkages have been severely impacted amid the pandemic outbreak.

(Proportion of respondents)



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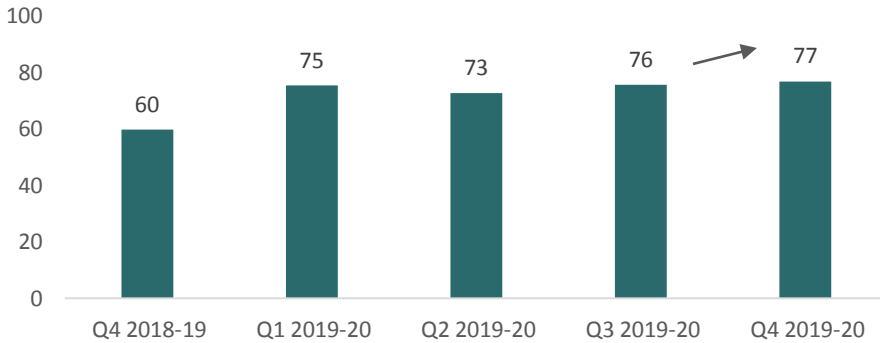
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Constraining Factors

Weak demand remains a major constraining factor for members of India Inc.

According to the results of our latest survey, a majority of participating companies continued to report subdued domestic demand situation. Around 77% of participating companies cited weak demand as a bothersome factor for their business in the present round. The corresponding number in the previous round was 76%.

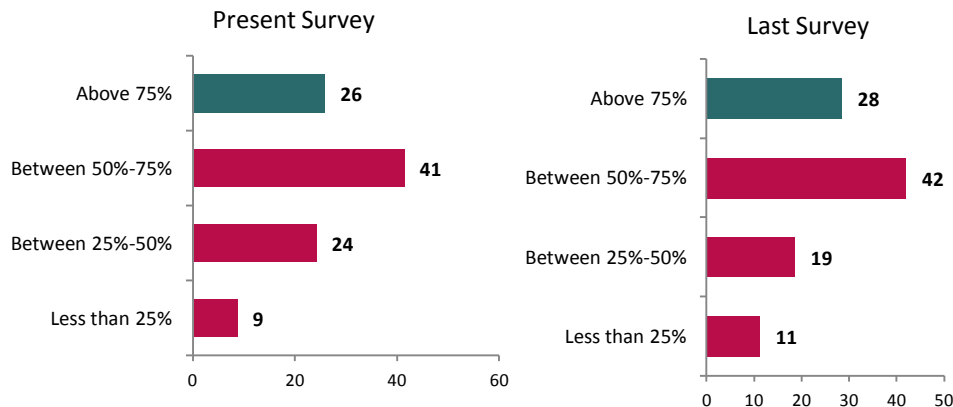
(Proportion of respondents)



...77% respondents cited weak demand as a constraining factor....

Furthermore, only 26% respondents, indicated a capacity utilization rate of over 75% in the present round.

Capacity Utilization (Proportion of respondents)



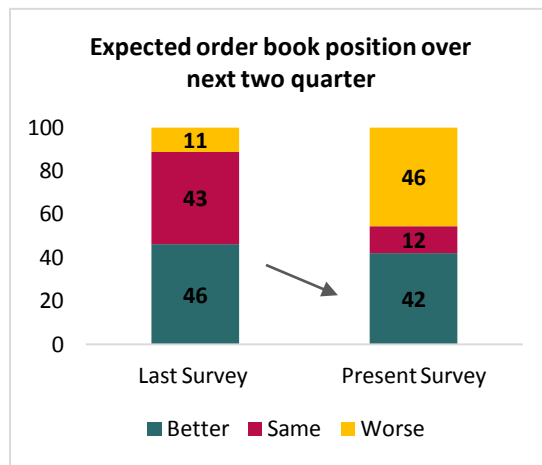
...capacity utilization rate of over 75% was reported by only 26% respondents

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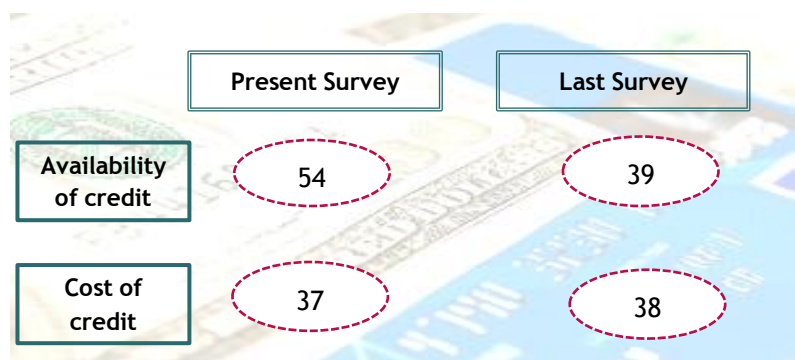
Constraining Factors

Furthermore, a decline was noticed in the proportion of respondents anticipating better order books over next six months in the current survey. About 42% companies expected an improvement in their order book position in coming six months vis-à-vis 46% who stated likewise in the previous round.



Credit Situation

In the present round, the proportion of respondents citing availability of credit as a major concern noted a considerable increase. Around 54% respondents cited availability of credit as a bothersome factor. The corresponding number was 39% in the previous. Availability of credit has been a concern despite sufficient liquidity available in the system



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Constraining Factors

Furthermore, in the present survey, proportion of respondents citing cost of credit as a worrisome factor declined marginally from the previous round- around 37% participants cited credit costs as a concern.

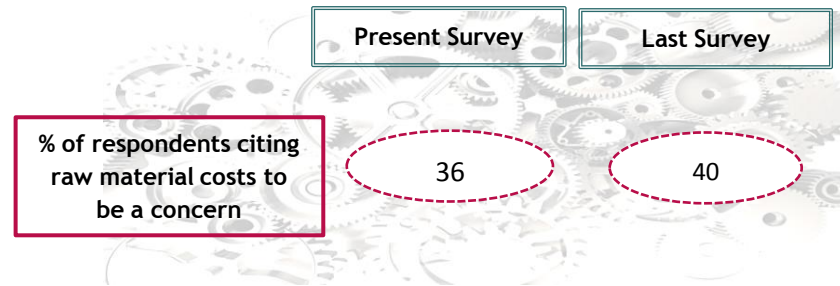
Survey findings indicate that companies are paying an average interest rate of 10.2% on term loans and an average interest rate of 9.97% on working capital loans.

Average Interest on Term Loans: 10.2%
Average Interest on Working Capital Loans: 9.97%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reported to be a constraining factor by 36% of the respondents. The corresponding figure in the previous survey round was 40%, and 58% a year back. With economic activity being slow, the demand for commodities has taken a sharp hit.

(Proportion of respondents)



Raw material costs pose a major challenge for about 36% of the companies...

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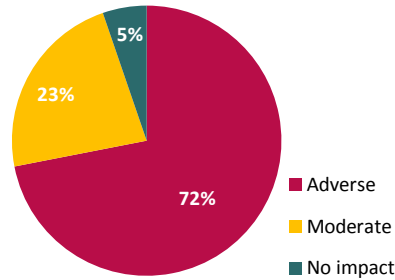
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Impact of the Covid-19 pandemic and measures to sustain businesses

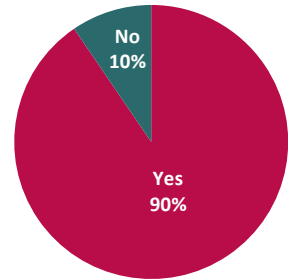
The year 2019 was a difficult one with both global as well as India's economy witnessing a rough patch. Nonetheless, a recovery was widely being anticipated in the year 2020. But the sudden and exponential spread of the coronavirus pandemic caught the world (as well as India) off guard and has now put everyone on tenterhooks. With large scale economic impacts being felt across the world amidst lockdowns, experts are trying to study the extent and longevity of impact on trade and economy. Given this backdrop, participating companies were asked to share their experience and the impact the pandemic is having on their businesses. They were also asked to share measures that they planned to undertake to deal with the current crisis.

(Proportion of respondents)

Impact of Corona virus outbreak on your sector



Has the supply chain for your product/sector been impacted?



A majority of the participating companies said that the corona virus pandemic and the consequent steps to eradicate the same have had an adverse impact on their businesses. Around 72% of the respondents said that their operations have been hit hard by the virus outbreak. Only 5% of the respondents were not impacted by the pandemic.

In addition, 90% of the respondents of the survey said that their supply chains have been impacted.

Respondents were also asked to share the measures they were planning to undertake to support their business in these unprecedented times.

Participating companies shared a wide variety of measures that they are planning to save their business from being shut. The most prominent theme was inward looking towards meeting domestic demand and supply.

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Many participants felt that they were majorly dependant on imports for their raw materials supply. They are now looking at developing alternate local supplies to meet their requirements. Moreover, as global supply chains have more or less come to a stand still, participating companies are also focusing more on serving domestic customers. For this they plan to invest in learning ways to serve customers through digital means.

Companies are trying to be more flexible in their product mix execution and are prioritizing production of essential goods portfolios. They are also proactively interacting with vendors as well as customers to meet the supply demand gap. They are utilizing this time to find innovative ways to restart their operations and regain demand for their products and services. These include updating products and services, improve quality and ensure cost efficiency.

Apart from this, companies are watching their cash flows and liquidity closely and are undertaking requisite steps to cut costs. This includes reviewing their capex decisions while simultaneously scaling down capacity; moderating salaries; deferring increments; renegotiating contracts with vendors for lowering prices; reducing office space etc. Alongside, many firms have indicated that they are looking at increased automation and may have to look at manpower rationalization as well.

Furthermore, participants have expressed concerns and are worried about their employees health and are ensuring that all possible support is extended to protect their health. Companies have enabled work from home wherever possible and are also preparing for health checks post lockdown phase.

Big businesses have implemented their existing contingency and business continuity plans. Others are carrying out forecasts to implement future course of actions in maintaining inventory. Participating companies unanimously agreed that prior planning along with adequate and timely government support was necessary to enable smooth restart of their operations. They are regularly monitoring the situation on ground and are taking necessary and feasible measures for course correction in these unprecedented times.

Respondents were hopeful about the future and were of the view that the impact of covid-19 would significantly lower over the next twelve months across the globe and allow businesses to flourish sustainably there on.

Ways to overcome the difficulties posed by Covid-19 pandemic led lockdown

The Reserve Bank of India has announced several measures to overcome the liquidity and other regulatory constraints facing the economy amidst the corona virus pandemic in its Sixth (February 6, 2020) as well as Seventh (March 27, 2020) Monetary Policy. In this context respondents of the survey were asked to share their prognosis on whether the measures will support credit growth over the near to medium term. Additionally, respondents were asked to suggest further ways to ease the difficulties that have arisen during the pandemic led lockdown.

A majority of the participating companies agreed that while RBI has released a lot of liquidity in the banking system, willingness on part of banks to implement RBI guidelines both in letter and spirit was the need of the hour. Alongside, the role of the government in facilitating and supporting industry at this juncture is crucial. Below are the measures suggested by the participating companies:

Suggestions for RBI...

- RBI should undertake direct purchase of corporate bonds.
- Reduce the repo rate by an additional 100 bps.
- Start direct purchase of NBFCs NCDs to provide them with long term durable liquidity.
- Direct banks to enhance credit limit by at least 25% without requiring any collateral security. Further, the need for collateral for MSMEs and Startups must be completely done away with for some time.
- Relax repayment/ NPA norms from 90 days to 360 days.
- Provide interest subvention on all working capital limits to all industry players for 6 months.
- RBI should ensure that the benefit of reduction in repo rate and its impact on MCLR is passed on to the borrowers by banks irrespective of the interest rate format agreed upon by borrowers.
- Moratorium provision must be extended from three months to at least six months. The same can be taken forward by increasing the loan period.

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Suggestions for Banks...

- Banks need to expedite decision making process and expedite lending.
- Adopt RBI guidelines in letter and spirit and ensure effective transmission of repo rate cuts into lower lending rates.
- Enhance funds available to the industry especially small and medium scale industry.

Suggestions for Government...

- Financial package for the entire industry (especially MSMEs) must be provided in the form of subsidies, policy support, tax holidays, special dispensation of funds to sustain employment levels before Covid-19 pandemic etc.
- Immediate measures need to be taken to instill confidence in decision makers of banks. Simultaneously, efforts must be made to make the entire lending process foolproof which will ultimately enable swifter decisions.
- Serious reforms in the labor market is the need of the hour and must be taken up on priority.
- Adequate policy support and facilitation must be provided to attract all companies leaving China amidst the Covid-19 outbreak.
- The government must make all efforts to increase disposable income of consumers who are battling their fears on the health as well as income/employment front.
- Provide temporary respite to all affected organizations from GST for at least a year from the date of commencement of operations post lockdown
- The government must kick start a few large infrastructure projects to uplift credit and employment situation
- Process payments on time to industries handling Government contracts
- Support MSME Vendors by enhancing procurement from them
- Any incentive/ financial support should be kept simple and practical while ensuring quick implementation.

Participating companies unanimously agreed that all efforts must be made to support consumption demand. Credit growth and thus economic activity cannot witness an uptick unless consumption picks up. They believed that business could fully restart and run only after fears arising from the Covid-19 pandemic abate.

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Survey Profile

The survey drew responses from about 190 companies with a turnover ranging from Rs 1 crore to Rs 98,800 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period April to September 2020.

Broad Sectoral Coverage			
Chemicals	Textile/Apparel	Pharmaceutical	Health & Wellness
Agricultural Equipment	Financial Services	Electronics	Tourism
Energy	Engineering Goods	Services	Food Processing
Automotive	Telecom	Industrial Machinery	Footwear
Plastics	Steel & Steel Products	Lighting	FMCG

Federation of Indian Chambers of Commerce and Industry
Federation House
Tansen Marg, New Delhi 110001
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