



Business Confidence Survey

August 2020

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Summary

Overall Business Confidence Index improves to 50.6 – eight notches higher than the index value in previous round
Weak demand continues to be a major impediment for the industry
Investment outlook bleak

- The latest round of FICCI's Business Confidence Survey revealed an improvement in the optimism level of members of India Inc after witnessing the sharpest decline since the global financial crisis in the previous survey. **The Overall Business Confidence Index stood at 50.6 in the current round which was around eight notches higher than the index value of 42.9 reported in the last survey.**
- **The Current Conditions Index was reported at 32.8 in the present round, vis-a-vis a value of 34.3 in the last survey; while Expectations Index stood at 59.5, vis-a-vis 47.1 in the previous round.**
- **The improvement in the Overall Business Confidence Index was backed by a marked uptick in the expectations of the respondents who feel that the performance in the coming six months will be relatively better.**
- **In the present round, a significantly higher proportion of respondents continued to cite worsening demand situation.** In the current survey, 80% participants reported weak demand conditions as a bothering factor as compared to 77% stating the same in the previous round. **This was the fifth consecutive quarter when more than 70% respondents cited weakness in demand as a major constraint to their business.**
- **Muted demand has manifested into lower capacity utilization rate for companies.** Only 23% participants cited a capacity utilization rate of more than 75% in the current survey as compared to 26% stating likewise in the previous round. The corresponding number previous year was 34%.
- The lower capacity utilization has led to an extremely bleak outlook as far as fresh investments are concerned. **In the latest survey, only 9% participants said that they foresee much higher to higher investments over coming six months as compared to 37% participants stating likewise in the previous round.**
- The percentage of respondents indicating higher cost of raw materials as a concern noted an uptick. About **46% of the participating companies stated higher raw material costs as a bothering factor in the present survey round. In the previous survey round, 36% respondents had stated the same.**
- **Companies had a mixed outlook with respect to other operational parameters.** While respondents were more optimistic about their sales and profits outlook, they projected a worse performance on selling price, employment and exports front.

Overall Business Confidence Index improves to 50.6 in the current survey round

Weak demand continues to be a major impediment for industry

Near term investment outlook bleak

Outlook on other operational parameters reveals a mixed picture

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- In the current round, 43% of the surveyed companies said that they foresee much higher to higher sales over next two quarters. The corresponding number in the previous survey was 35%. Likewise, about 22% respondents cited higher profits over the next two quarters. The corresponding number in the previous round was 15%.
- Companies opined a muted scenario on employment front. In the current survey, only 5% participants cited an increase in hiring activity over next two quarters as compared to 19% saying the same in the previous survey round.
- A similar picture also emerged on the exports front. In the latest round, only 19% respondents said that they foresee much higher to higher exports in the next six months. The corresponding number in the previous survey was 23%.

The respondents were also asked to share their opinion on certain contemporary issues such as impact of Covid-19 pandemic on their businesses, hiring trends, remote working measures undertaken etc.

Impact of the Covid-19 pandemic: Major Impediments to Businesses

- Domestic economic conditions, weak demand/social distancing and global economic conditions emerged as the top three major concerns for the participating companies.
- Other major concerns listed by respondents included restrictions on travel, localized lockdowns in states and consequent disruption in supply chains and sluggish ecosystems etc.

Impact of the Covid-19 pandemic: Hiring

- A majority of the participating companies said that they have frozen fresh hiring in their organizations.
- Moreover, around 21% of the respondents indicated that they were downsizing their employee base.

Impact of the Covid-19 pandemic: Remote Working

- While the economy is now in an unlock phase, about 80% of the participating companies said that they provided remote working option to their employees.
- However, only 30% of the companies have over 70% of the employees working from home. Workers have been reporting at factories/ on field physically after the unlock 1.0 phase was initiated. A large part of respondents were continuing with remote working option for their office staff.
- About 46% respondents said that they would continue with working remotely option of the time being. The expected timeline provisioned for continuing 'Work from Home' option differed hugely between September 2020 to about a year.

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- However, a majority of the participants indicated that they will most likely wait for a minimum of six months before re-opening offices fully.

Expected Timeline for Businesses and Revenue to Return to Pre-Covid 19 Levels

- A majority of the companies who participated in the survey said that it would take on average about six to twelve months for their businesses to return to pre-covid 19 levels.
- On the revenue front, a majority of the participants believed that they would witness significant decline in their revenues due to the pandemic led recession. They expect recovery in revenue to be slow and stabilize in about six- twelve months.
- About 75% of the respondents to the survey felt that demand conditions would take more than 6 months to normalize and revive. Around 28% of these respondents were of the view that it would take over one year to witness any kind of revival in consumption demand.

Measures Undertaken to Sustain Business Since Lockdown

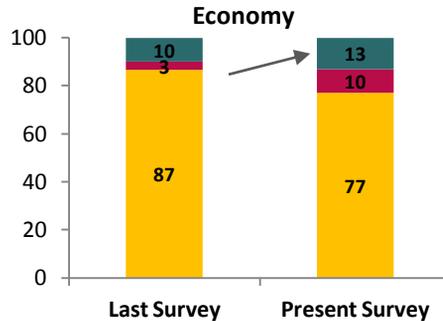
- ‘Increased Digitization’ emerged as the major theme indicated by companies in battling the pandemic
- A majority of participants said that they have resorted to greater use of digital means in different areas of business to survive the pandemic induced economic shutdown.
- Besides, a majority participating companies said that they have maintained close connect with their customers and clients throughout this time.
- Cost optimization and resource rationalization were also reported as major steps taken towards sustenance apart from implementation of business continuity plans.
- Respondents highlighted that they were utilizing this opportunity to study and innovate new products and access newer markets (both domestic as well as international). In the meanwhile, they are also focusing on manufacturing products that are thriving in the current times.
- Participating companies are devoting more time towards better financial planning. Some of the respondents are looking at the possibility of monetizing their assets for meeting their financial requirements.
- Respondents were unanimous in quoting that health and safety protocols were of utmost importance in the current times and they were ensuring that all safety checks are in place.

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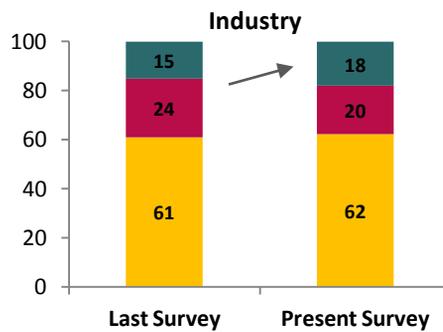
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Current conditions vis-à-vis last six months

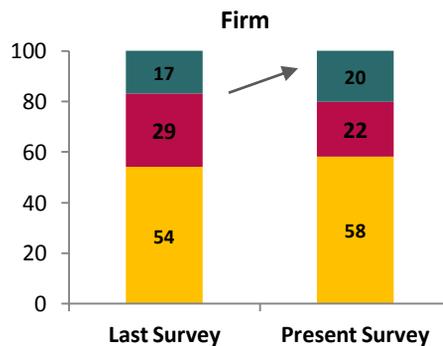
A majority of participants continued to report weaker current conditions vis-a-vis last six months.....



According to the latest survey findings, a majority of participants reported weakening of current conditions vis-a-vis last months.



In the present survey, a slight uptick was noticed in the proportion of respondents citing weaker current conditions at the industry and firm level. About 62% respondents at industry level reported weaker current conditions vis-à-vis last six months as compared to 61% participants reporting the same in the previous round.



At firm level too, 58% respondents cited current conditions as 'moderately to substantially worse' vis-à-vis last six months. 54% participants reported likewise in the previous survey round.

However, the proportion of participants citing current economic conditions as 'moderately to substantially worse' relative to previous six months declined to 77% vis-à-vis 87% respondents stating likewise in the previous round.

Also, it may be noted that even though the proportion of respondents stating an improvement in current conditions remained small - a marginal increase was noted in the percentage of participants reporting likewise at all three levels.

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Expected conditions over next six months

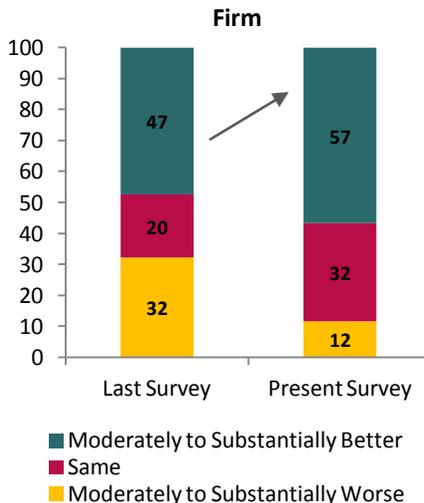
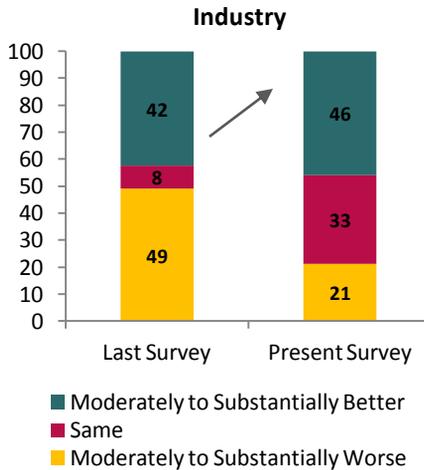
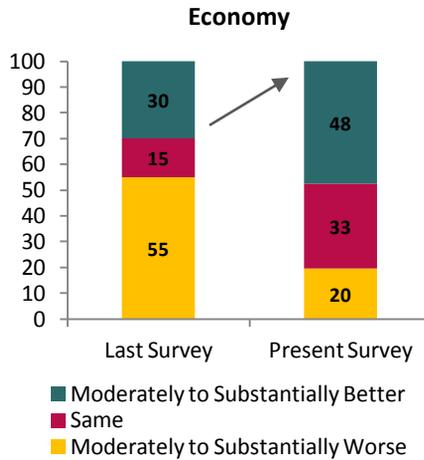
Results of the latest survey reported significant improvement in the optimism level of respondents about near term prospects.

At the economy level, the proportion of respondents foreseeing ‘moderately to substantially better’ performance over next six months improved to 48% in the current round compared to 30% participants reporting likewise in the previous survey.

Likewise, 46% of the surveyed companies reported that they expect an improved performance over coming six months at industry level. The corresponding number in the previous round was marginally lower at 42%.

Furthermore, proportion of respondents hopeful about better prospects at the firm level also witnessed an improvement. About 57% of the participating companies expected a ‘moderately to substantially better’ performance over the next two quarters in the current survey as compared to 47% stating the same in the previous round.

The percentage of participants citing worsening of near-term prospects at all three levels declined significantly in the current survey.



Respondents report significant improvement in expectations with regard to performance over the period July-December 2020-21....



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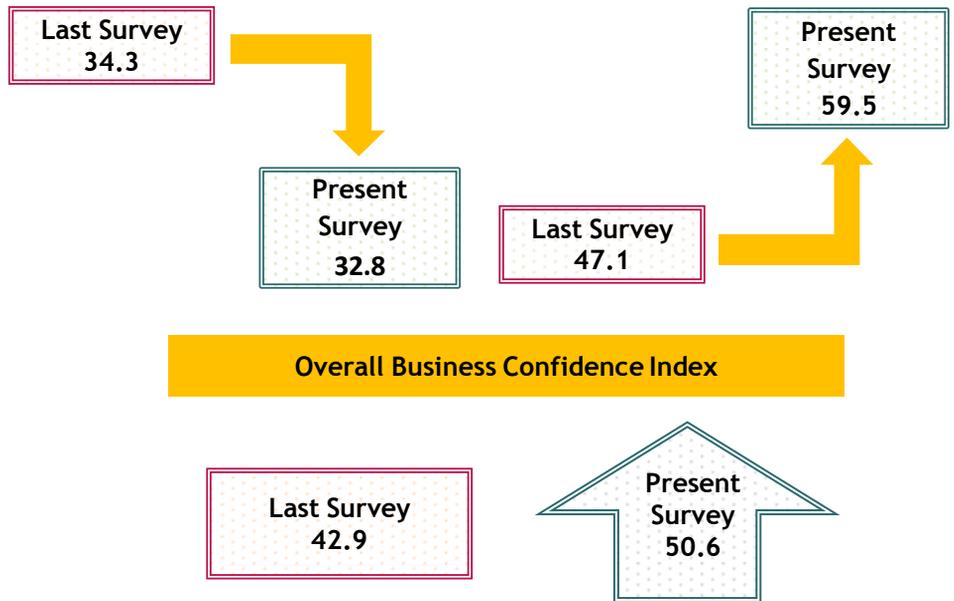
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Business Confidence Index

Overall Business Confidence Index

Current Conditions Index

Expectations Index



OBCI witnessed improvement and stood at 50.6 in the present survey...

...Sharp improvement in Expectations Index has led to a higher index value during the quarter

Overall Business Confidence Index witnessed considerable improvement in the current survey round. The index value was reported at 50.6 in the present survey - which was about eight notches higher than the value reported in the previous round. The corresponding index value in the previous round was 42.9.

While the assessment of respondents with regard to current conditions remained subdued in the present round, the expectations for the next six months noted a marked improvement.

Countries across the globe have started to reopen their economies. India, too, has begun a phased unlocking of economic activity since June 2020. As a result, there have been some signs of uptick in economic activity – some of the lead indicators have reported an improvement on a sequential basis. However, the recent spurt in local lockdowns is undermining the recovery process. A sense of uncertainty continues to loom and needs to be handled with caution. Continuous support from Government and the Central Bank will be critical at this juncture.

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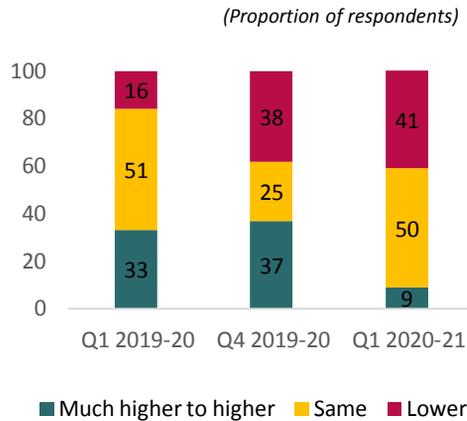
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Operational Parameters

Investments

The proportion of respondents citing 'much higher to higher' investments in the coming six months took a sharp plunge in the current round.

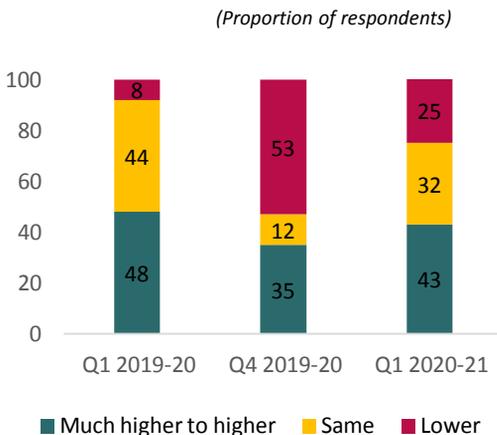
In the present survey, only 9% participating companies anticipated an increase in investments over next two quarters, which was significantly lower than 37% companies reporting likewise in the previous survey round.



Investment outlook deteriorates sharply....

Widespread uncertainty caused by the pandemic coupled with severely dented consumption demand has hugely impacted investment outlook of companies. Companies are sitting on excess capacities. Only 23% of the participating companies said that they were operating at a capacity utilization rate of over 75%. The companies continue to remain wary and still do not deem the current situation to be very conducive for undertaking fresh investments.

Sales



Latest survey results report a slightly better outlook of respondents with regard to sales.

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

Furthermore, a sharp decline was noticed in the proportion of respondents anticipating lower sales in the next six months (from 53% in previous round to 25% currently).

...sales prospects improve...

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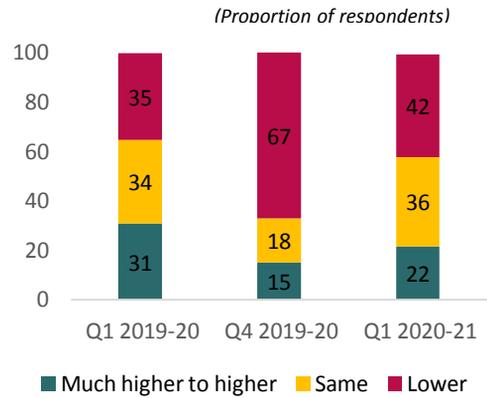
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Operational Parameters

Profits

In the present round, outlook on profits also noted some improvement. Proportion of participants citing higher profits over next six months increased to 22% in the latest survey from 15% respondents stating likewise in the previous round.

Phased unlocking of economy has resulted in better sentiments among members of India Inc. around sales prospects over the next six months which is expected to positively impact their profits.

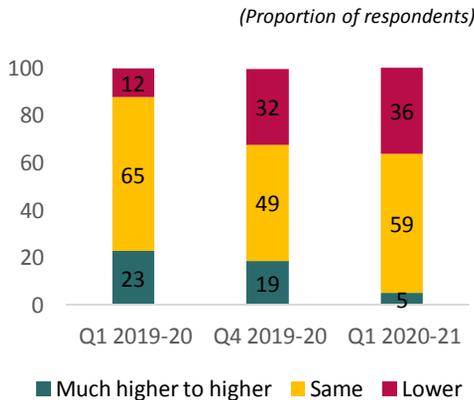


Survey results indicate some improvement in the outlook on profits...

Employment

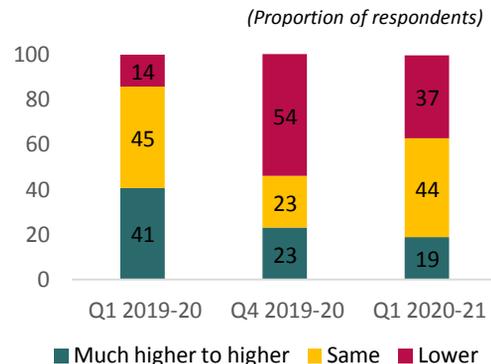
As per the latest survey results, outlook on hiring worsened in the current survey round.

In the present round, only 5% respondents said that they foresee hiring new employees over the next two quarters - which was lower than 19% companies stating likewise in the previous round. Moreover, about 36% respondents cited a decline in hiring levels



Exports

The outlook of respondents with regard to exports noted a further deterioration in the present round. In the latest survey, only 19% respondents said that they foresee much higher to higher outbound shipments over next two quarters. The corresponding number in the previous round was higher at 23%.



....outlook on employment deteriorates and on exports remains conservative

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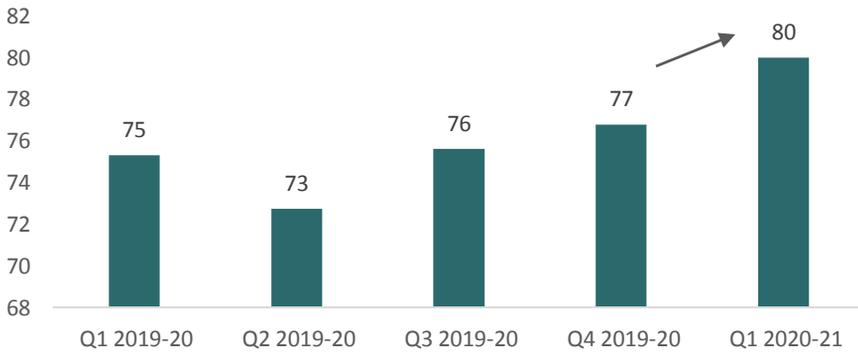
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Constraining Factors

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 80% 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 77%. This was the fifth consecutive quarter when more than 70% respondents cited weakness in demand as a major constraint to their business.

(Proportion of respondents)



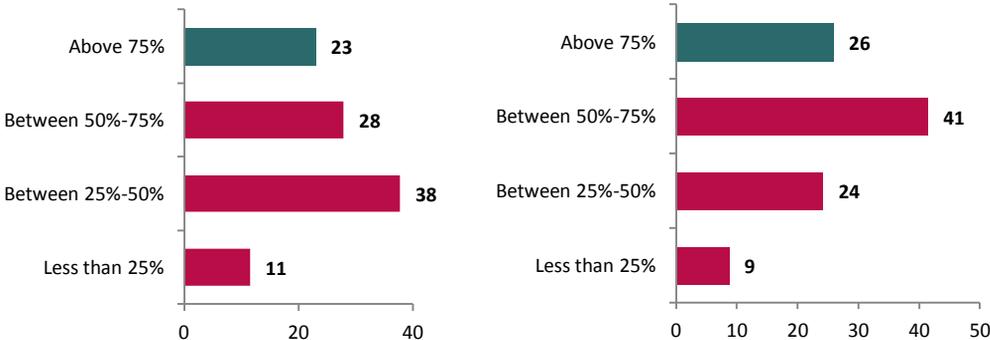
...80% respondents cited weak demand as a constraining factor...

Furthermore, only 23% respondents, indicated a capacity utilization rate of over 75% in the present round.

Capacity Utilization (Proportion of respondents)

Present Survey

Last Survey



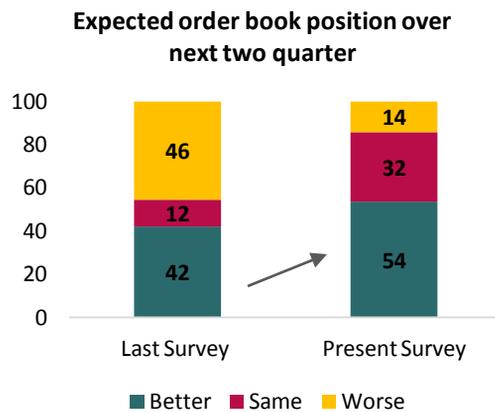
...majority respondents operating at under 75% capacity utilization rate ...

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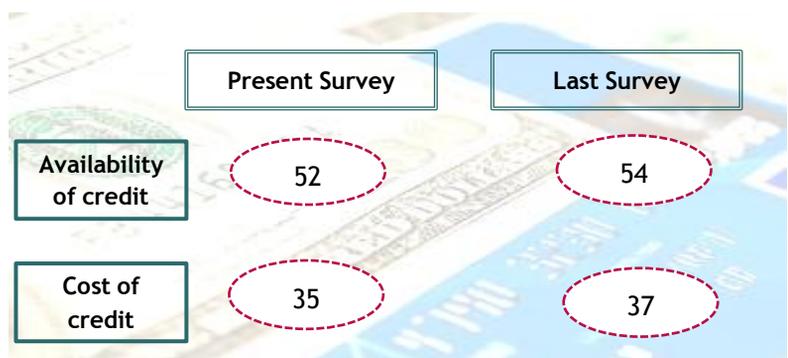
Constraining Factors

However, an improvement was noticed in the proportion of respondents anticipating better order books over next six months in the current survey. About 54% companies expected an improvement in their order book position in coming six months vis-à-vis 42% who stated likewise in the previous round.



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor declined marginally from the previous round- around 35% participants cited credit costs as a concern.



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Constraining Factors

Furthermore, the proportion of respondents citing availability of credit as a major concern did not notice much change. About 52% of the respondents cited availability of credit as a bothersome factor. The corresponding number was 54% in the previous round.

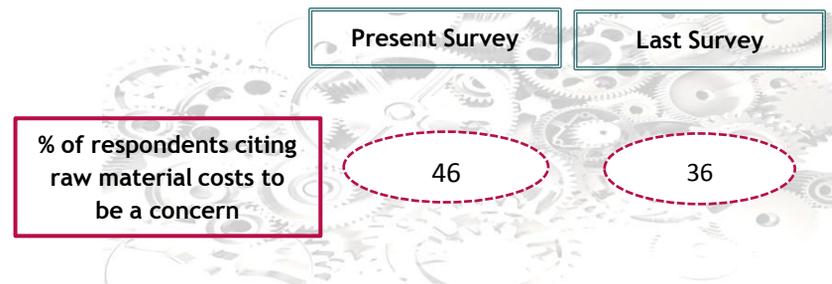
Survey findings indicate that companies are paying an average interest rate of 10.5% on term loans and an average interest rate of 10.2% on working capital loans.

Average Interest on Term Loans: 10.5%
Average Interest on Working Capital Loans: 10.2%

Raw Material Costs Arise as a Concern

In the present survey, rising raw material prices were reported to be a constraining factor by 46% of the respondents. The corresponding figure in the previous survey round was 36%, and 49% about a year back.

(Proportion of respondents)



Raw material costs pose a challenge for about 46% of the companies...

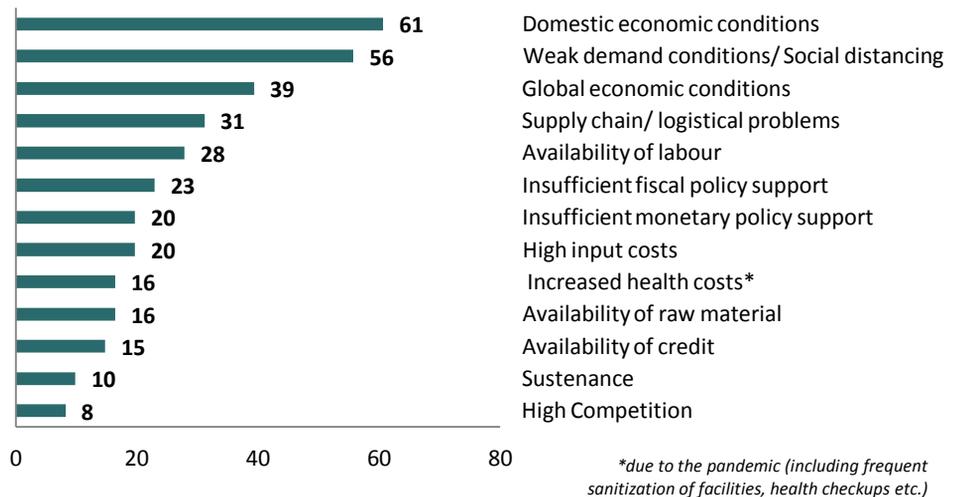
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Impact of the Covid-19 pandemic: Major Impediments Around Restarting Businesses

(Proportion of respondents)

What are the three major concerns you are facing/ likely to face around restarting your business?

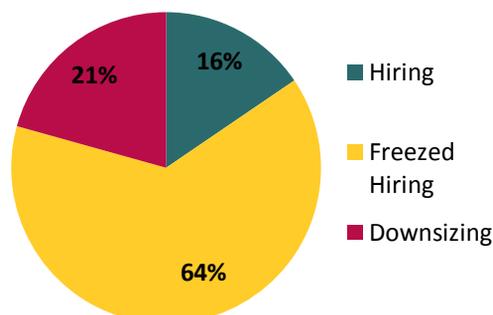


Domestic economic conditions, weak demand/social distancing and global economic conditions emerged as top three major concerns participating companies. Other major concerns listed by respondents included restrictions on travel, localized lockdowns in states and consequent supply chain issues and sluggish ecosystems.

Impact of the Covid-19 pandemic: Hiring Trends

(Proportion of respondents)

In light of the COVID-19 pandemic, what has been the standpoint of your company on hiring activity?



A majority of the participating companies said that they have frozen fresh hiring in their organizations.

Moreover, around 21% of the respondents said that they were looking at downsizing their employee base.

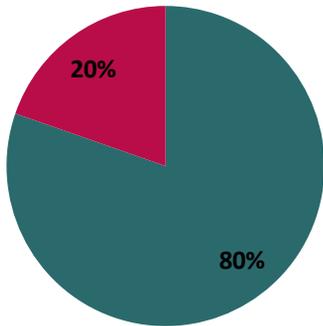
Only 16% of the respondents reported undertaking fresh hiring.

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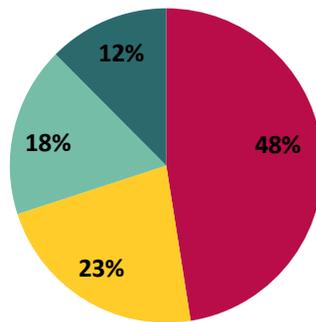
Impact of the Covid-19 pandemic: Remote Work

Have you provided remote working option to your staff?



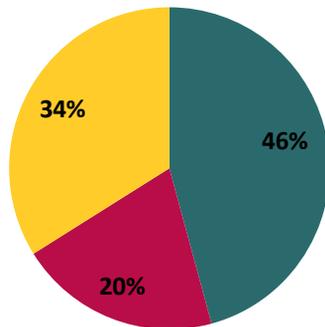
■ Yes ■ No

What percentage of your workforce has been working remotely?



■ Below 50% ■ 50-69% ■ 70-89% ■ Over 90%

Are you likely to continue with the remote working option over the next few months?



■ Yes ■ No ■ Cant say

Covid-19 pandemic induced lockdown forced organizations to start working remotely. While the economy is now in unlock phase, about 80% of the participating companies said that they have provided remote working to their employees. However, only 30% of the companies have over 70% of the employees working from home. Workers have been reporting at factories/ on field physically after the unlock 1.0 phase was initiated. A large part of the respondents were continuing with remote working for their office staff.

While about 46% respondents said that they would continue with working remotely option for the time being. The expected timeline provisioned for continuing 'Work from Home' option differed hugely between September 2020 to about a year. However, a majority of the participants reported that they would wait for a minimum of six months before re-opening offices fully.

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Timeline for Businesses to Return to Pre-Covid 19: Revival in Consumption Demand

Given the current situation, participants were asked to share their prognosis on the timeline for businesses to return to pre-covid levels. In addition, they were also asked to share their revenue expectations over the next one year.

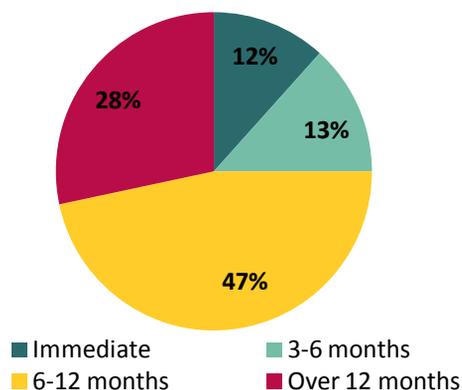
A majority of the companies who participated in the survey said that it would take on average about six to twelve months for their businesses to return to pre-covid 19 levels.

On the revenue front, a majority of the participants believed that they would witness significant decline in their revenues due to the pandemic led recession. They expect recovery in revenue to be slow and stabilize in about six- twelve months.

Some of the participants, whose businesses were not impacted by Covid on the back of pure nature of businesses (essential commodities), said that their revenues were not affected much by the pandemic and would, in fact, expect to continue growing.

In addition, views of companies were sought on the possibility of demand revival in the near term.

By when do you see demand conditions stabilizing for your product?



About 75% of the respondents to the survey felt that demand conditions would take more than 6 months to normalize and revive. Around 28% of these respondents were of the view that it would take over one year to witness any kind of revival and stabilization in consumption demand.

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Measures Undertaken to Sustain Business Since Lockdown

Participating companies were also asked to share measures that they have undertaken to ensure business continuity ever since the lockdown was imposed in March 2020.

'Increased Digitization' emerged as the major theme around which companies responded to this query. A majority of respondents said that they have adopted greater digital means in different areas of their business to survive from the pandemic induced economic shutdown. This included enabling work from home for employees, shifting towards video conferencing for their internal as well as client meetings, imparting online training to employees, enhanced social media presence, greater focus on digital marketing and e-commerce, generation of online standard operating procedures, greater automation at factories, undertaking IT upgrades, organizing webinars etc.

Participants are also communicating much more with transporters and logistics/courier services to ensure smooth transportation of their products. Alongside, they are improving their own infrastructure facilities as well.

Besides, a majority of the participating companies said that they have maintained close connect with their customers and clients throughout this time. Cost optimization and resource rationalization were also reported as major steps taken towards sustenance apart from implementation of business continuity plans.

The respondents also highlighted that they were utilizing this opportunity to study and innovate new products as well as access newer markets (both domestic as well as international). In the meanwhile, they are focusing on producing products that are profitable at present and are thriving in the current times.

Participating companies are also devoting a lot of time and energy towards better financial planning. Some of the respondents are monetizing their assets for meeting their financial requirements.

Lastly, respondents were unanimous in quoting that health and safety protocols were of utmost importance in the current times and they were ensuring that all safety checks are in place. Participants said that all necessary measures were being undertaken to overcome from the crisis.

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Survey Profile

The survey drew responses from about 165 companies with a turnover ranging from Rs 1.5 crore to Rs 40,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period July to December 2020.

Broad Sectoral Coverage			
Chemicals	Textile/Apparel	Gems & Jewellery	Health & Wellness
Agricultural Equipment	Financial Services	Electronics	Tourism/Hospitality
Energy	Engineering Goods	Services	Real Estate
Automotive	Consultancy	Bio-technology	Metals
Plastics	Steel & Steel Products	Lighting	FMCG

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