SPIRALLING COSTS PUT PRESSURE ON CORPORATE INDIA'S BOTTOMLINE; PROFITS UNDER STRESS AS FINAL PRICE OF GOODS REMAIN STICKY DUE TO COMPETITION FROM IMPORTS

BUSINESS CONFIDENCE DIPS IN Q1, 2010-11: FICCI SURVEY

NEW DELHI, July 24, 2010. Corporate India find itself caught between two cleft sticks with turnover rising but profits remaining under pressure because of fast pace of input price rise and inability to adjust final price of goods in the face of intense competition from imports.

Faced with global turmoil, it looks like India has become a key market for industrial products. A large proportion of firms participating in FICCI's Business Confidence Survey have said that they are facing stiff competition from imported goods. Wages have also increased and are adding to the overall cost pressures. In these circumstances, another hike in policy rates by the central bank will hit industry hard when international pressure is getting tougher.

FICCI's Business Confidence Survey for the first quarter of fiscal 2010-11 drew responses from 311 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 1 crore to Rs. 20,000 crore. Respondents to FICCI's Business Confidence Survey were from sectors such as textiles, steel, chemicals and fertilizers, oil and gas, auto and auto components, food processing, electrical equipment and machinery, rubber and rubber products, cement, FMCG, pharmaceuticals, paper, metal and metal products and financial services. The survey was conducted during the month of July 2010.

Given the growing concerns about profitability and pressure of rise in costs on one hand and the possibility of further increase in interest rates in the months ahead on the other, companies have sounded a note of caution about performance at the firm and industry level.

Companies continue to face pressure on account of the borrowing costs. While the move over from the PLR regime to the Base Rate regime is being seen to lead to greater competition amongst banks for customers and force them to increase efficiency, companies do not foresee any benefit accruing to them in terms of lowering of borrowing costs resulting from this change. Nearly 72 per cent of the firms that participated in FICCI's latest business confidence survey have subscribed to this view on borrowing rates from banks. Another 24 percent, majority of which are large corporates, feel that there is a good chance that their borrowing costs will rise with the base rate coming into effect from July 1, 2010.

The FICCI survey notes that the macro situation is also getting vitiated on account of the stubbornly high inflation rates and the perpetual question over the state of global economy.

These developments have dented the confidence level of corporate India with all the three confidence indices computed by FICCI seeing dip in their value.

- Current Conditions Index has fallen by almost five notches from 76.3 in last round to 71.1 this time.
- Expectation Index took a value of 72.2, while in the previous survey it was 74.1.
- With both the Current Conditions Index and Expectations Index registering a decline, the Overall Business Confidence Index fell from its value of 74.8 in the previous survey to 71.9 in the present round.

The survey reveals that while high borrowing cost is presently being seen as an impediment to business performance by nearly 40 percent of the surveyed firms, going ahead this figure is expected to rise. This is because of the tight monetary policy stance that has been adopted by RBI.

With RBI already having increased key policy rates earlier this month, there is a strong feeling amongst firms that another rate of hike at the forthcoming monetary policy review on July 27, 2010, will certainly jack up further their cost of credit. Nearly 87 per cent of the firms, which participated in the FICCI survey, hold this view.

The only consolation that firms seem to have at this point is that if the RBI were to hike policy rates on July 27, 2010, then banks will not increasing lending rates immediately. Nearly 73 per cent of companies feel that an increase in interest rates would happen only in the next three months if RBI were to further tighten monetary policy.

Responses to various enterprise level parameters for the next six months are as follows.

- Sales: 77 per cent expect ‘higher to much higher’ sales
- Selling price: 23 per cent foresee an increase in prices
- Profits: 39 per cent expect ‘higher to much higher’ profits
- Exports: 44 per cent expect ‘higher to much higher’ exports
- Investments: 46 per cent expect ‘higher to much higher’ investments
- Employment : 35 per cent expect ‘higher to much higher’ employment

MEDIA DIVISION

Taresh Arora
Media Relations Officer
Tel : 23736307 & 23357392 (Direct)
9899115719 (Mobile)
23753119 (Fax)