



# **Business Confidence Survey**

**November 2018**

# Business Confidence Survey

November 2018

## Summary

### Overall Confidence level dips to lowest level in seven quarters on account of external pressures

**Rising raw material costs continue to be a major impediment**  
**73% respondents impacted by volatility in exchange rate**  
**Credit situation witnesses worsening**

- The latest round of FICCI's Business Confidence Survey revealed a moderation in the sentiments of members of India Inc for the third straight quarter. **The Overall Business Confidence Index stood at 61.9 in the current round vis-à-vis an index value of 65.4 reported in the last survey.** Moderation in both current conditions as well as expectations pulled the overall index value down by about 3 notches.
- **In the present round, a significantly higher proportion of respondents cited worsening in the credit situation.** In the current survey, 48% participants reported constrained availability of credit as a bothering factor - which was double the proportion of respondents stating likewise in the previous round. Further, higher cost of credit was reported as a major concern by 60% of the participating companies in the current round. The corresponding number in the previous round stood at 41%.
- The survey results also allude to a sharp moderation witnessed in the outlook for investments. Only 32% participants said that they foresee higher to much higher investments over the coming six months vis-à-vis 45% stating likewise in the last survey. Further, the proportion of respondents citing capacity utilization of over 75% also noted a decline in the current round.
- Demand conditions in the economy witnessed no improvement from the results put across in the previous round. About **49% respondents stated weak demand as a bothering factor in the present survey – which was the same as the previous round.** This is discouraging amidst hopes of consumption activity picking up with the onset of festive season.
- High oil prices, volatile Rupee-US Dollar exchange rate and lower than expected growth in global economy and trade are impacting India's near-term prospects. These factors are exerting pressure on production costs and corporate earnings as many companies continue to absorb the costs themselves.
- **Higher input costs was reported to be a matter of concern by majority of survey participants. Around 76% respondents stated rising cost of raw materials to be a constraining factor – which was the highest in twenty six quarters.** The corresponding number in the previous round was 63%.

**Overall Business Confidence Index drops to 61.9**

**Rising raw material costs continues to be a worrisome factor**

**Deterioration in near term investment outlook**

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Respondents foresee lower profits and employment over the next six months....

## Summary

- **Consequently, current survey results report a sharp deterioration in near term profit outlook of companies. Only 27% of the surveyed companies cited 'higher to much higher' profits over the next two quarters** as compared to 42% participating companies stating the same in the previous round.
- The outlook on employment also worsened in the present survey. Only 20% of the participating companies said that they foresee a rise in hiring activity over coming six months vis-à-vis 33% citing the same in the previous round.
- However, the outlook of participating companies on exports reported an improvement - with 38% respondents foreseeing higher outbound shipments over the next two quarters. The corresponding number in the previous round was 33%.

The respondents were also asked to share their opinion on certain contemporary issues such as volatility in Rupee-US Dollar exchange rate and the top risk factors that are affecting their businesses performance.

### **Impact of volatility in Rupee-US Dollar exchange rate on business performance**

- A majority of respondents reported that the volatility in Rupee-Dollar exchange rate has adversely affected operations as it has led to increased costs of raw materials (especially for those companies which are dependent on imports for their inputs), higher interest rates and has stroked general inflation. About 73% of the surveyed companies were affected by volatility in exchange rate.
- Majority of respondents said that they are proactively monitoring and reviewing hedging bookings and using options or forward contracts to deal with the situation.
- Many respondents felt that a reduction in imports and moving towards locally sourced inputs can limit the increase in their production costs to some extent. Simultaneously, focusing on increasing exports can act as a natural hedge and help in neutralizing the negative impact of a higher import bill.
- However, participating companies were somewhat divided on whether to pass on the increase in production costs to consumers or not. While many felt that passing on the costs to customers seemed imminent; others said that taking a hit on profitability would be more apt at this juncture for retaining the customer base.

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## Summary

### *Top three risk factors impacting performance of businesses*

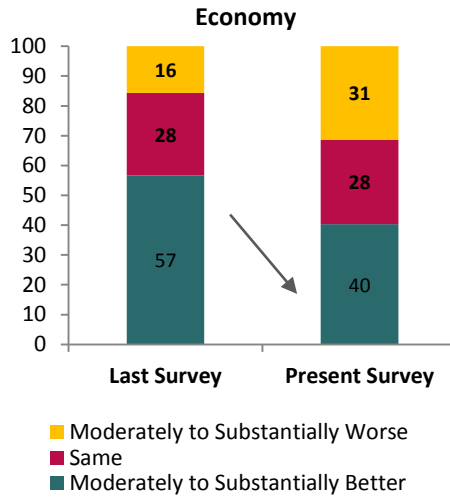
- A majority of the participating companies indicated rising oil/commodity prices, Rupee depreciation and global growth prospects as the topmost concerns facing the business community .
- Of the total number of respondents, about 86% of the companies cited rise in crude oil/commodity prices as a major risk factor that is impacting costs and demand for their products. Furthermore, 66% of the total companies surveyed cited a depreciating currency as a worrisome factor; while 54% respondents felt that uncertainty pertaining to global growth prospects is likely to have an impact on their business.
- Other factors such as growing protectionism, dumping and slowdown in China were bothersome for a relatively smaller share of participants. While 19% and 12% of the participants indicated growing protectionism and dumping as impediments, only 8% of the respondents said that their sector will be affected by a slowdown in China.
- Apart from this, respondents indicated other issues that can have a bearing on their business/sector – these included - lack of availability of affordable credit, trade sanctions by US on some partner countries, slower growth in demand, uncertainty in market conditions and economic policies.
- Furthermore, concerns over governance were also raised by some participants in terms of existence of cumbersome processes, corruption and delays in receiving tax credits.

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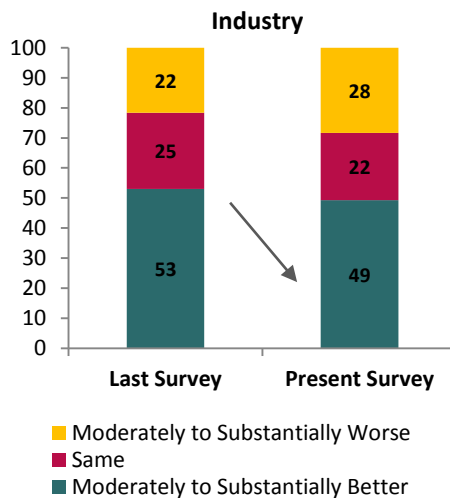
## Current conditions vis-à-vis last six months

Assessment of respondents with regard to current conditions report moderation at all three levels vis-à-vis previous two quarters....



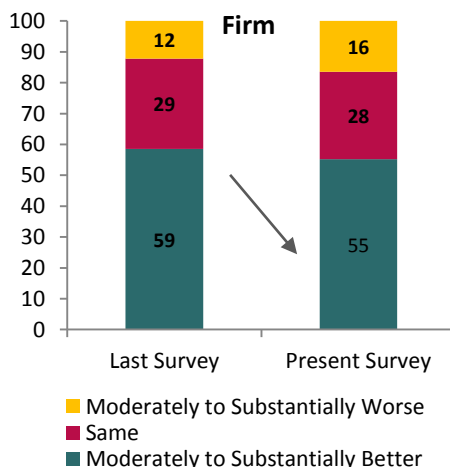
FICCI's latest Business Confidence Survey reports a moderation in the assessment of respondents with regard to current conditions at all three levels - economy, industry and firm - compared to last six months.

In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined to 40% vis-à-vis 57% respondents stating likewise in the previous round.



About 49% respondents at industry level reported improved current conditions vis-à-vis last six months as compared to 53% participants reporting likewise in the previous round.

At firm level, 55% respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months. This was lower than 59% participants reporting likewise in the previous survey.



An increase was noticed in the proportion of participants reporting current conditions to have worsened relative to last six months at all three levels.

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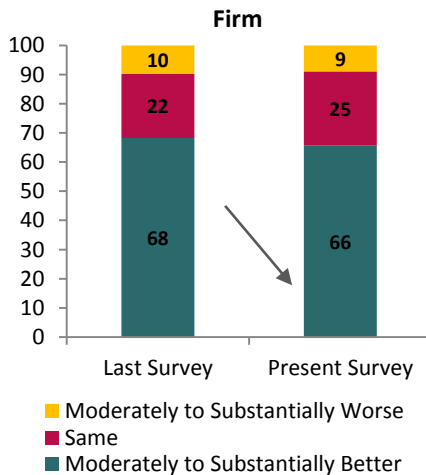
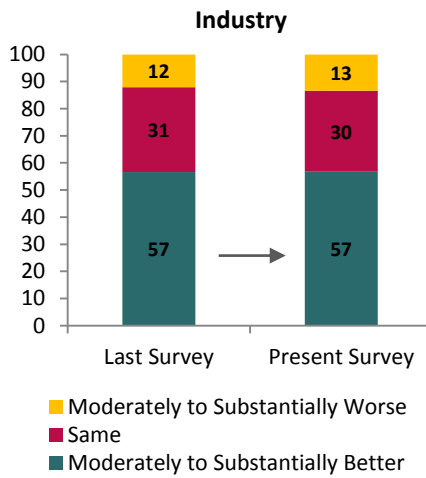
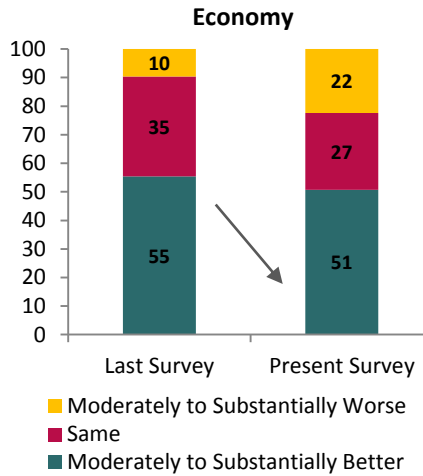
## Expected conditions over next six months

Results of the latest survey report a marginal reduction in optimism level of respondents about near term prospects at the economy and firm level.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over next six months moderated to 51% in the current round compared to 55% participants reporting likewise in the previous survey.

On the other hand, 66% of the surveyed companies reported that they expect an improved performance over coming six months at firm level. The corresponding number in the previous round was 68%.

At the industry level, no change was noticed in the proportion of participating companies expecting a 'moderately to substantially better' performance over the next two quarters in the current survey when compared to the previous round.



Respondents report moderation in expectations with regard to performance over the period October – March 2018-19....

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## Business Confidence Index

### Overall Business Confidence Index

#### Current Conditions Index

Last Survey  
62.8



Present  
Survey  
58.0

#### Expectations Index

Last Survey  
66.7



Present  
Survey  
63.8

### Overall Business Confidence Index

Last Survey  
65.4

Present  
Survey  
61.9

OBCI further dipped to 61.9 in the current survey vis-à-vis a value of 65.4 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 3 notches in the present round and stood at 61.9. The corresponding number in the previous round was 65.4. This was the third consecutive quarter when the confidence level witnessed a decline.

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

External environment has become increasingly challenging. Growing trade tensions, rise in crude oil prices and volatility in exchange rate continue to pose as downside risks for India's economy. Also, the latest projections by various multilateral institutes report a lower than expected growth in global trade and output this year. Furthermore on the domestic side, worsening of credit situation along with higher raw materials costs is impacting businesses.

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## Operational Parameters

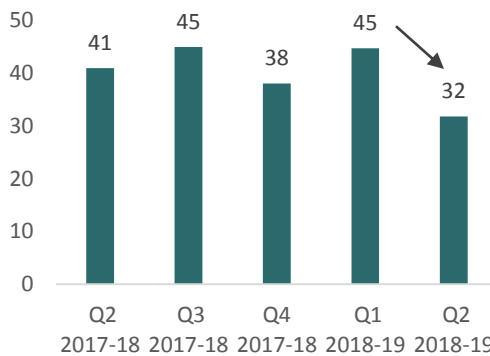
### Investments

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

In the current survey, just about 32% participating companies anticipated an increase in investments over coming six months. The corresponding number in the previous round was 45%.

Although some optimism was noted in sentiment of respondents with regard to undertaking fresh investments in the previous round, however a sustained turn around remains elusive. The credit situation has tightened and this is clearly visible in our latest survey results. Both lack of availability of credit and higher cost is having a dampening effect on India Inc. Both international as well as domestic factors - trade protectionism, lower global economic and trade forecast coupled with weakening demand conditions in the domestic market, capital outflows, tighter global financial markets – are inhibiting an uptick in investments.

(Proportion of respondents)

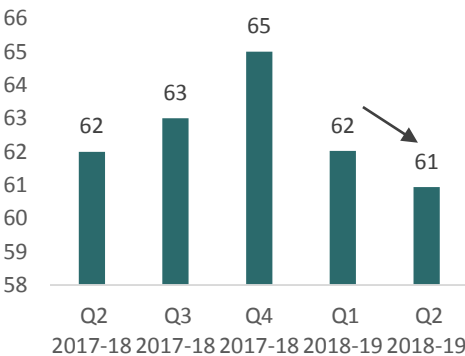


Investment outlook bleak....

Lack of availability of credit and higher cost of credit and raw materials costs deterring investment plans....

### Sales

(Proportion of respondents)



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

61% participating companies anticipated an increase in sales over next two quarters, vis-à-vis 62% stating likewise in the previous round.

Marginal moderation in near term sales prospects...



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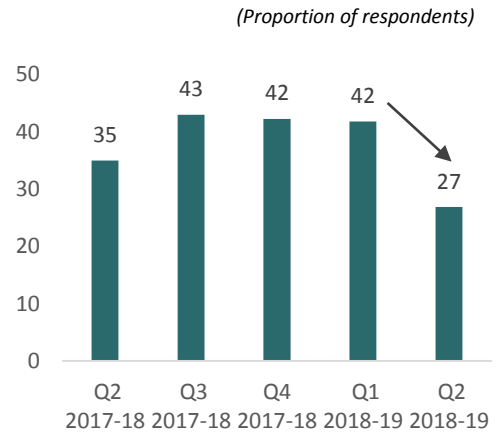
## Operational Parameters

Survey results indicate sharp fall in the outlook on profits...

### Profits

In the present round, a sharp deterioration is noted in the profit outlook of companies. Proportion of respondents citing higher profits over next six months plunged to 27% in the latest survey from 42% respondents stating likewise in the previous round.

Increase in cost of production has dampened the profit margin of companies. Rising input costs, cost of credit and depreciating Rupee have added to the woes of corporates.

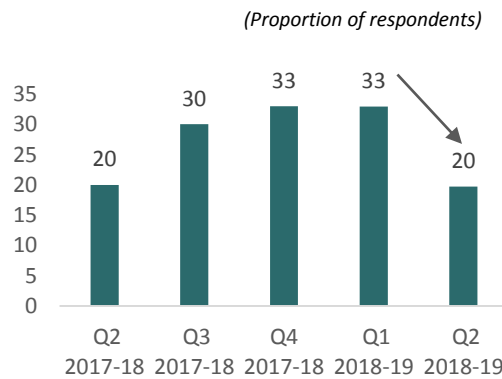


Employment prospects too show deterioration...

### Employment

As per the latest survey results, outlook on employment generation reported moderation after witnessing optimism for three consecutive quarters.

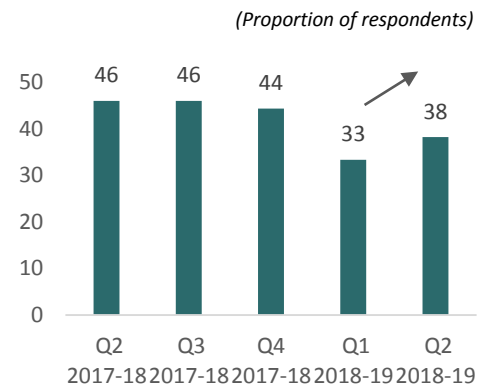
In the present round, only 20% respondents said that they foresee hiring new employees over the next six months vis-à-vis 33% stating the same in the previous round.



Outlook on exports, however, witnessed improvement...

### Exports

Surprisingly, the outlook of respondents with regard to exports witnessed some improvement. In the latest survey, 38% respondents said that they foresee higher to much higher outbound shipments over next two quarters. The corresponding number in the previous round was 33%. The number is a little encouraging amid an environment characterized by growing protectionism



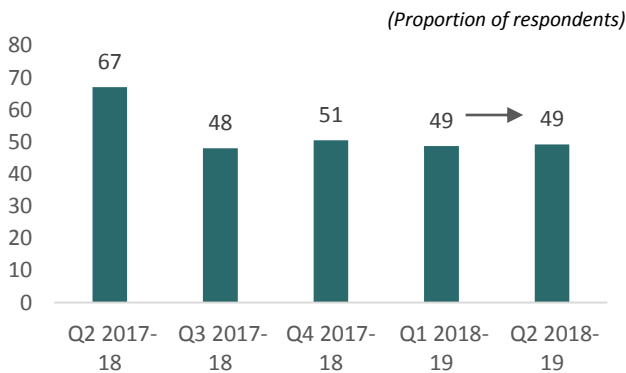
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## Constraining Factors

**Proportion of respondents citing weak demand as a constraining factor remains unchanged**

According to the results of our latest survey there has been no improvement in the domestic demand situation. About 49% of the participating companies cited weak demand as a bothersome factor for their business – which was the same as last survey round. With the tightening credit situation, the consumption activity is being impacted and the festive season also remained lean.

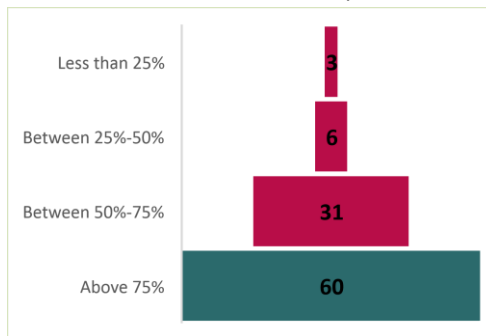
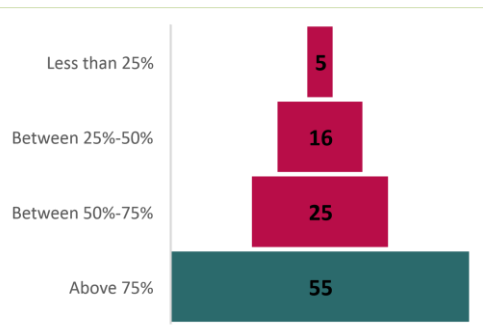


55% respondents indicated a capacity utilization rate of over 75% in the present round compared to 60% reporting the same in the previous round (which was the highest in 27 quarters).

**Capacity Utilization** (Proportion of respondents)

Present Survey

Last Survey



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

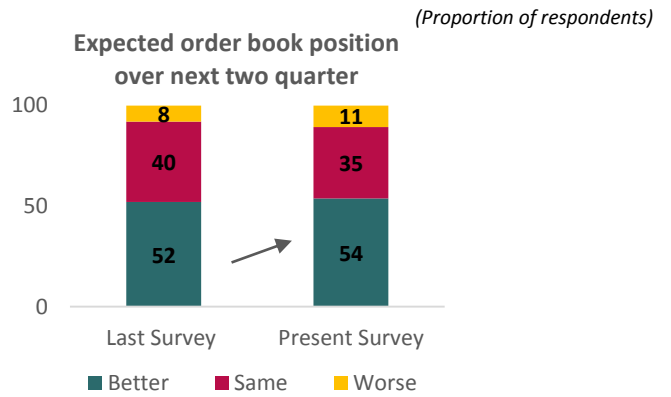
...55% respondents cited capacity utilization of more than 75%...

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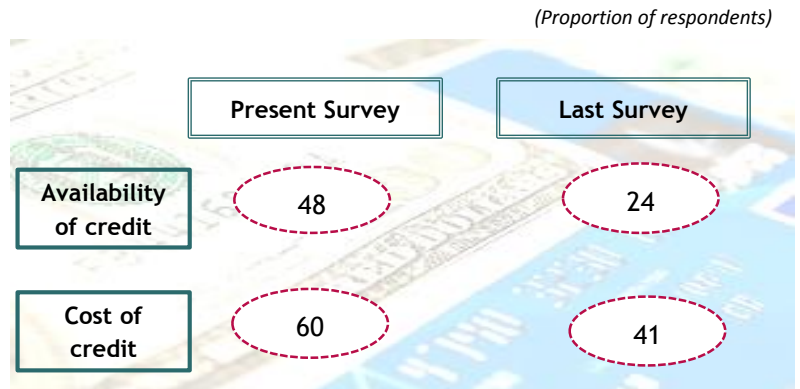
## Constraining Factors

In the current survey, a marginal improvement is noticed in the proportion of respondents anticipating better order books over next six months. About 54% companies expect an improvement in their order book position in coming six months vis-à-vis 52% who stated likewise in the previous round.



## Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor noted a discernible increase - about 60% participants cited credit costs as a concern. In the previous round, 41% respondents had stated likewise.



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## Constraining Factors

Furthermore, availability of credit was also cited as a major concern by 48% of the respondents (which was the highest since 2006-07).

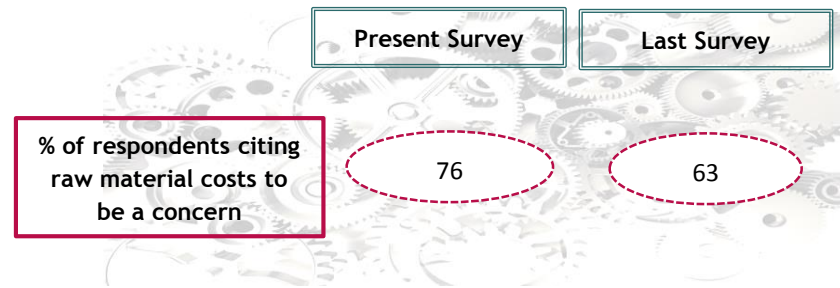
Survey findings indicate that companies are paying an average interest rate of 11.3% on term loans and an average interest rate of 11.2% on working capital loans.

**Average Interest on Term Loans: 11.3%**  
**Average Interest on Working Capital Loans: 11.2%**

### Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reflected to be a constraining factor by 76% of the respondents. The corresponding figure in the previous survey round was 63%, and 56% a year back.

(Proportion of respondents)

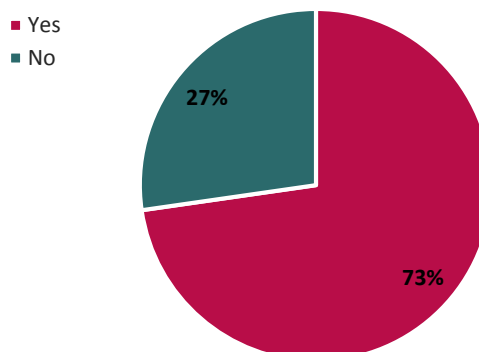


**Raw material costs pose a major challenge for companies...**

## *Impact of volatility in Rupee-US Dollar exchange rate movement on businesses*

The Rupee- US Dollar exchange rate has been displaying volatility for some time now with the Rupee value crossing an all time low of Rs. 74.0 for a Dollar in October 2018. Given this, participating companies were asked whether they have been impacted by the volatility in the exchange rate, and if so, how are they dealing with the situation.

### Has your company been impacted by this recent volatility in Rupee movement?



A majority of respondents reported that the volatility in Rupee-Dollar exchange rate has impacted operations as it has led to an increase in costs of raw materials (especially for those companies which are dependent on imports for their inputs), higher interest rates and has stroked general inflation. About 73% of the surveyed companies said that they were affected by the volatility in exchange rate.

On being asked about the ways in which they are dealing with the situation, a large majority of respondents said that they are proactively monitoring and reviewing hedging bookings using options or forward contracts. Many respondents felt that a reduction in imports and moving towards local sourcing of inputs can limit the increase in their costs of production to some extent. Simultaneously, focusing on increasing exports can act as a natural hedge and help in neutralizing the negative impact of a higher import bill.

However, participating companies remained divided on whether to pass on the overall increase in cost of production to consumers or not. While many felt that passing on costs to the customers seemed imminent; others felt that taking a hit on profitability would be more apt at this juncture so as to retain their customer base.

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Many respondents agreed that there was a need to establish an exchange rate mechanism with buyers to deal with the current situation of volatility.

On the other hand, there were some companies which cited a positive impact as well of the fluctuation in exchange rate on their business as the situation enhanced their outbound shipments. However, the proportion of such companies was very low as per the survey results.

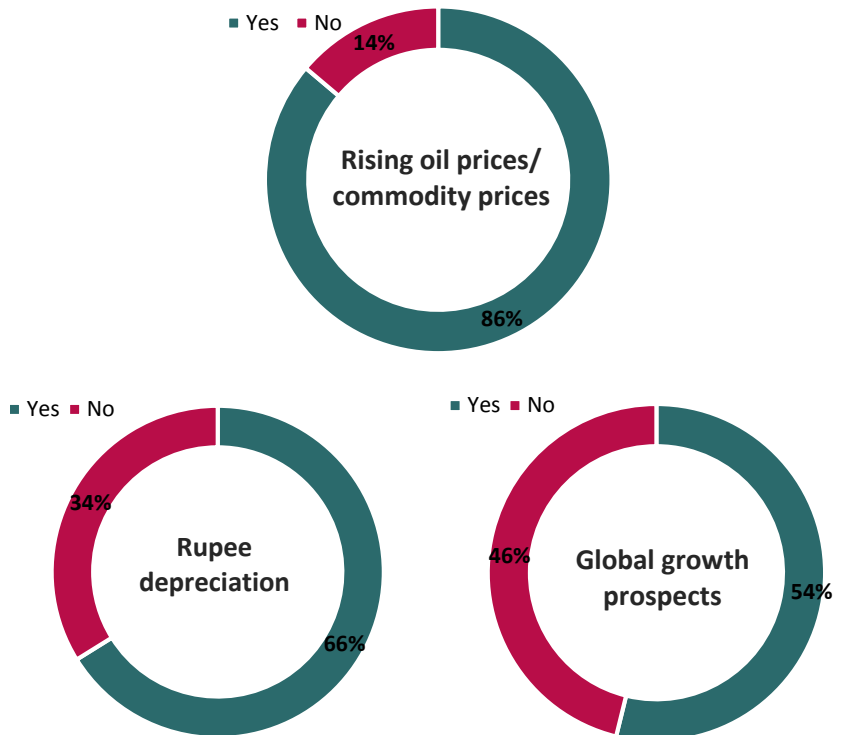
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## Top three risk factors impacting performance of businesses

Considerable risks have manifested over the past year primarily on external front which is likely to have an impact on the economy and industry. Keeping this in mind, companies were asked to list top three risk factors that are impacting their businesses.

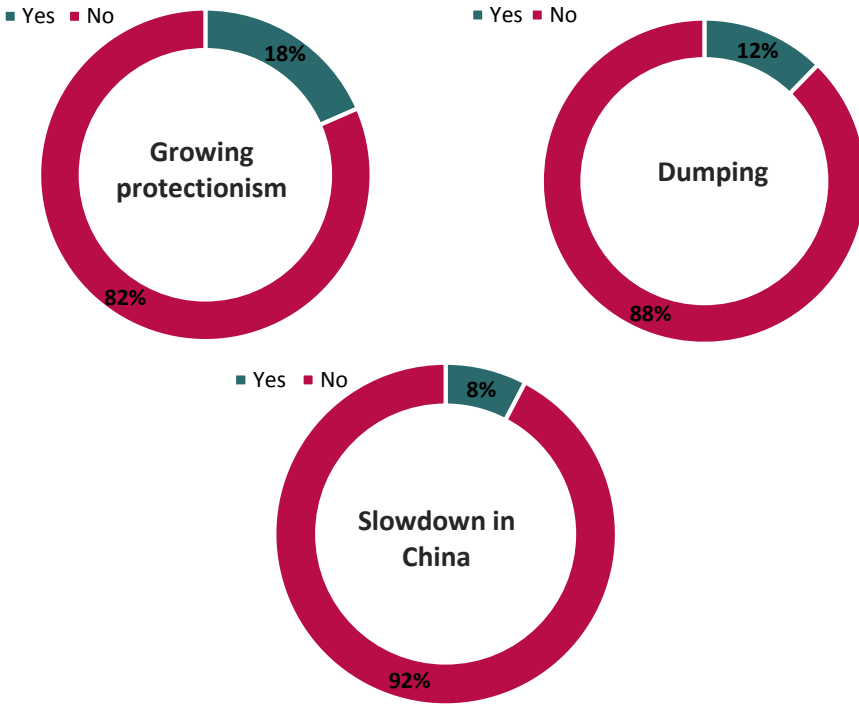
A majority of participating companies indicated rising crude oil/commodity prices, Rupee depreciation and global growth prospects as the topmost concerns facing their business/sector. Of the total number of respondents, about 86% companies cited rise in commodity prices as a major risk factor which is impacting costs and demand for their products. 66% companies surveyed cited depreciating currency as a worrisome factor, while 54% of the respondents agreed that uncertainty pertaining to global growth prospects is likely to have an impact on their business.



Other factors such as growing protectionism, dumping and slowdown in China were bothersome factors for a smaller proportion of participating companies. While 19% and 12% of participants indicated growing protectionism and dumping as impediments, only 8% respondents said that they will be affected by a slowdown in China.

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Apart from this, respondents also indicated other issues that can have a possible implication on their business/sector. These included lack of availability of affordable credit, trade sanctions by US on some of its trading partners, slower growth in demand, uncertainty in market conditions and economic policies.

Furthermore, concerns over governance were also raised by some participants in terms of existence of cumbersome processes, corruption and delays in receiving tax credits.



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## Survey Profile

The survey drew responses from about 150 companies with a turnover ranging from Rs 15 lakhs to Rs 4.3 lakh crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period October 2018 to March 2019.

Broad Sectoral Coverage			
Chemicals	Yarns/Fabric	Textiles	Metals
Agricultural Equipment	Financial Services	Telecom	Wellness
Energy	Engineering Goods	Services	Construction
Automotive	Steel & Steel Products	Industrial Machinery	Footwear
	Plastic	Pharmaceuticals	

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