



**Business Confidence Survey
May 2021**

Business Confidence Survey

Summary

Overall Confidence Index plunges to 51.5 in the latest survey round Record surge in the Covid-19 infections deeply impacted business sentiments; Demand conditions weaken once again

- The latest round of FICCI's Business Confidence Survey revealed sharp deterioration in the optimism level of corporate India. **The Overall Business Confidence Index nosedived and stood at 51.5 in the current round after reporting a decadal high value of 74.2 in the previous round.** Worsening in current conditions as well as muted expectations about the near-term prospects on the back of a sweeping second wave of coronavirus infections pulled down the overall index value.
- **Moreover, the proportion of respondents citing weak demand situation as a constraining factor increased to 70% in the latest survey round** vis-à-vis 56% respondents stating the same in the previous round. Lower household savings due to higher health expenditure incurred in the second wave as well as fear of a third wave is restricting growth in private consumption. In addition, there has been permanent impairment to income for many households who have faced job losses or have lost bread earners to covid-19.
- Since a much larger proportion of the population has been impacted in the current wave, measures to support demand revival will be crucial for the economy to recover from the latest pandemic induced shock. Moreover, pace of vaccination must be significantly increased for achieving faster normalization.
- Despite weak demand conditions, participating companies reported improved capacity utilization rate in the present survey. This can be attributed to imposition of localised restrictions instead of a complete lockdown which ensured industry remaining largely functional throughout. In the current survey, around 48% participating companies reported capacity utilization of more than 75% as compared to 38% stating likewise in the previous round.
- However, decreased levels of optimism amongst industry members impacted their near-term outlook on nearly all operational parameters.
- The proportion of respondents anticipating better sales prospects in the near term plunged to 31% from 66% of the respondents stating likewise in the previous survey round.

Overall Business Confidence Index plunged to 51.5 in the current survey round

Demand conditions deteriorated substantially

Outlook on operational parameters including sales, profits, employment and exports worsened

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• **Deteriorating sales prospects coupled with lower pricing power is likely to bring down profits earned by corporate India over the next two quarters.** The percentage of participants citing higher profits over next six months declined considerably to 16% in the latest survey from 36% respondents stating likewise in the previous round.

• Outlook on employment and exports also reported a discernible deterioration. **Only 19% respondents were optimistic about better hiring prospects** over the next two quarters (as compared to 35% stating the same in the previous round). **Export prospects also worsened significantly in the current round with only 27% respondents indicating higher outbounds shipments.** The corresponding number in the previous round was 41%.

• In addition to general pessimism about the overall economic prospects, participants of the survey cited increasing raw material costs as a major bothersome factor for the fourth consecutive survey round. About **65% of the participating companies stated higher raw material costs as a constraining factor in the present survey. This was higher than 59% participants stating likewise in the previous round.**

The respondents were also asked to share their opinion on the impact of localized restrictions imposed by various state governments on their businesses and subsequent measures undertaken by them for ensuring business continuity. They were also asked to share their views on the policy course for minimizing the impact of the second wave of coronavirus infections on the economy and businesses.

Impact of Localized Restrictions on Businesses

- About 80% of the participating companies said that they were facing issues in carrying out their business amidst the fresh round of localized lockdowns imposed by states.
- Weak demand and consumer sentiment was the topmost concern flagged by the respondents.
- This was followed by non-availability of raw materials and manpower shortage (owing to various factors increased infections in family, hesitancy to travel, fear).
- Increased exposure to risks as well as logistical delays were also highlighted as major constraining factors by participating companies.

Measures Undertaken for Business Continuity

- A majority of the respondents highlighted that they were strictly following government mandated procedures and encouraging covid appropriate behavior on their premises.

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- Additionally, increased level of digitization from the first phase of infections has also helped business tide over this wave in a much better and planned manner.
- Respondents also stressed that they were ensuring ample liquidity, maintaining buffers of key inputs as well as final product stocks.
- Alongside, they are shifting focus to external markets where demand is reviving. In the domestic market, there is much greater emphasis on catering to the zones that are under less severe restrictions.
- Participating companies said that they were also undertaking greater product diversification and are adopting innovative ways to safely engage workforce in operations.
- Respondents also outlined various initiatives taken to ascertain employee wellbeing and work continuity including provision of medical finance assistance, setting up vaccination camps, arranging large scale awareness about covid prevention and healthcare and undertaking employee training exercises.

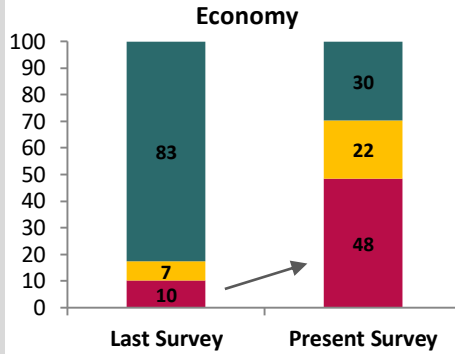
Policy Recommendations for Limiting the impact on Economy and Businesses

- Respondents of the survey unanimously felt that the government must, first and foremost, focus on controlling covid cases. A massive vaccination drive could decouple India's economy from another pandemic induced shock.
- Furthermore, participants strongly believed that regular communication from the government on the status of the pandemic and necessary response measures undertaken is vital to dispel any doubts and panic.
- A large proportion of the participating companies emphasized the problem in availing credit and called upon the banking community to enhance lending at a reasonable rate. Alongside, RBI should continue to ensure ample liquidity in the system and must take additional measures to encourage banks to lend more.
- Apart from this, a majority of the participating companies called for extension of the moratorium on loans, principal and interest payments, for at least another six months.
- Participants emphasized on the need for a stable interest rate regime for about 12-18 months. They also recommended that the RBI must continue with being accommodative till sustainable normalcy returns to the system.
- On the fiscal side, companies unanimously felt the need for another fiscal package, focusing majorly on addressing the demand side. Demand boosting measures such as direct income support to rural as well as urban poor, income tax reductions for the middle class and temporary reductions in indirect taxes must be urgently considered.
- Additionally, they called for targeted fiscal support- in the form of tax waiver and financial assistance- to sectors that were previously kept out of the stimulus package but were deeply impacted by it (including travel, tourism, hotels & hospitality and civil aviation).
- Lastly, a majority of the respondents felt that frontloading capital expenditure, by both central and state governments, was the need of the hour as this would greatly build and sustain market sentiments and demand.

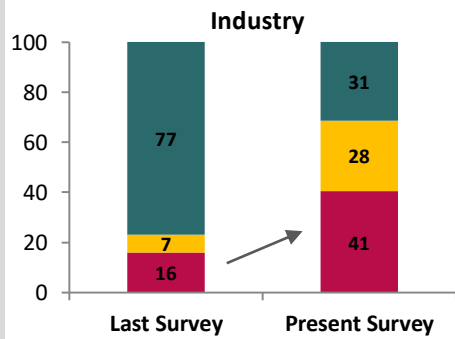
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Current conditions vis-à-vis last six months

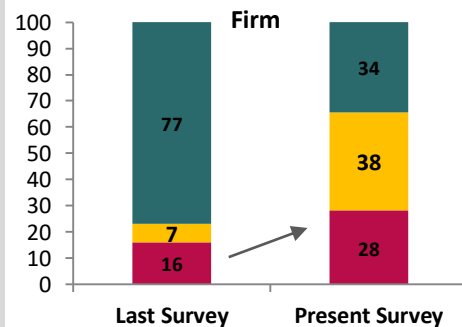
Assessment of respondents regarding overall current conditions compared to last six months turned subdued in the current survey round...



- Moderately to Substantially Better
- Same
- Moderately to Substantially Worse



- Moderately to Substantially Better
- Same
- Moderately to Substantially Worse



- Moderately to Substantially Better
- Same
- Moderately to Substantially Worse

FICCI's latest round of Business Confidence Survey revealed a sharp dip in the proportion of respondents reporting better overall current conditions relative to last six months. Consequently, the proportion of respondents indicating worsening current conditions increased significantly at all three levels (economy, industry and firm) in the current survey vis-a-vis the previous round.

In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially worse' relative to previous six months stood at 48% vis-à-vis only 10% respondents stating likewise in the previous round.

At the industry level, about 41% respondents reported 'moderately to substantially worse' current conditions vis-à-vis last six months as compared to 16% participants reporting the same in the previous round.

At the firm level too, 28% of the respondents cited current conditions as 'moderately to substantially worse' vis-à-vis last six months. About 16% of the participating companies had reported likewise in the previous survey round.

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Expected conditions over next six months

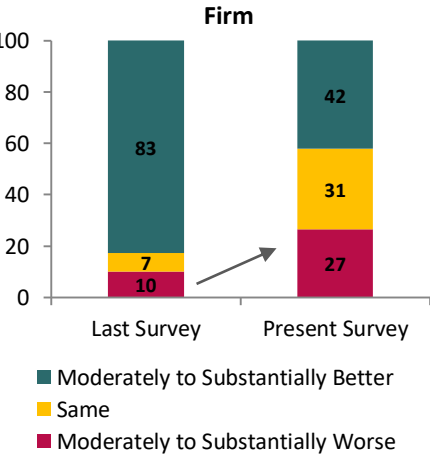
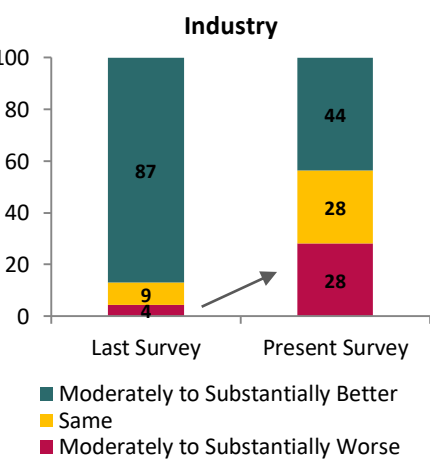
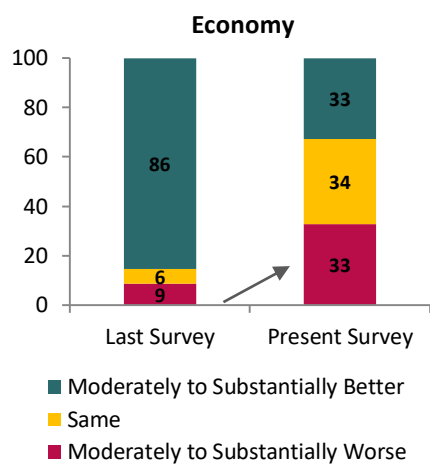
Results of the latest survey indicate significant deterioration in the optimism level of respondents about near term prospects when compared to the previous round.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over next six months worsened to 33% in the current round compared to 86% participants reporting likewise in the previous survey.

Furthermore, about 44% of the surveyed companies reported that they expect an improved performance over the next six months at industry level. The corresponding number in the previous round was almost double at 87%.

The proportion of participating companies expectant of better prospects at the firm level also deteriorated sharply. Only 42% participating companies expected a 'moderately to substantially better' performance over the next two quarters in the current survey as compared to 83% stating the same in the previous round.

As a result, the proportion of respondents citing worsening of near-term prospects at all three levels increased considerably.



The expectations of respondents regarding performance over the period April – September 2021 also indicated worsening at all the three levels....



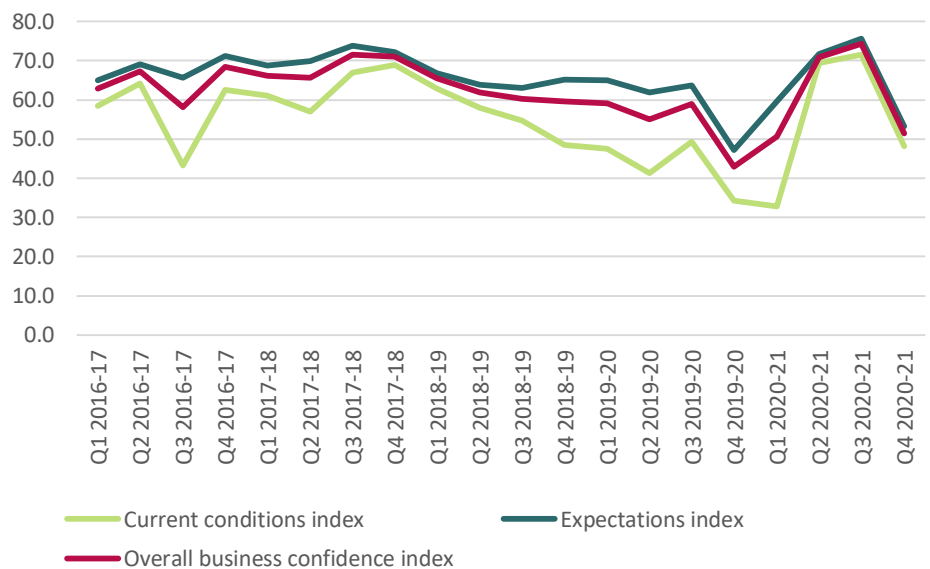
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Business Confidence Index

OBCI reported a sharp plunge to 51.5 in the present survey...

...Weak performance in both current conditions as well as expectations index caused the sharp fall in the overall index value

Overall Business Confidence Index



Overall Business Confidence Index nosedived in the current survey round. The index value declined to 51.5 in the present survey - the lowest in three quarters - after posting a decadal high of 74.2 in the previous survey round. Decline in the optimism levels of the participating companies regarding both current conditions as well as expectations led to a plunge in the overall index value in this survey round.

While the economy was witnessing a recovery after it was first struck with the pandemic induced restrictions in 2020, the extremely challenging second wave has caused massive disruptions once again - significantly exacerbating the impact on health front and undermining the initial gains made on the economic front.

Fresh round of restrictions on the back of record increase in daily new covid infections has impacted industry's sentiments. A much larger proportion of the population has been impacted in the current wave which implies that consumer sentiments have taken a considerable hit once again this time. This is a worrying trend for the near-term prospects of businesses. With household income being severely impacted and past savings being already drawn on during the first wave of infections, demand conditions can be expected to remain weak for longer. Thus, measures to support demand remain crucial for the economy to recover from the shock that has arisen from the second wave. In addition, increased pace of vaccination will remain key for achieving faster normalization.

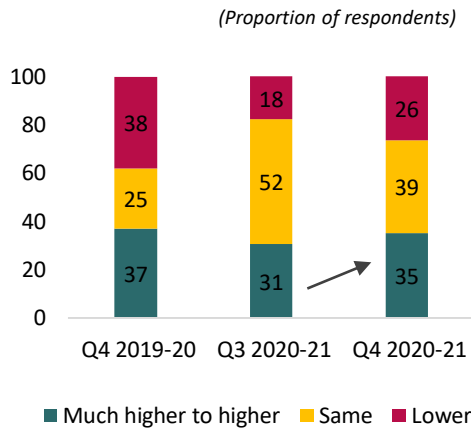
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Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments in the coming six months witnessed a marginal increase in the current survey when compared to the previous round.

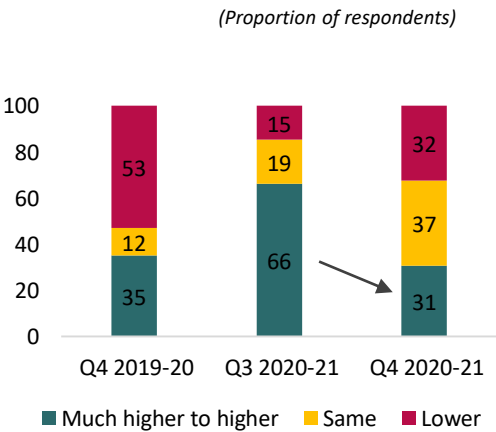
In the current survey, 35% participating companies anticipated an increase in investments over the coming six months as compared to 31% respondents reporting likewise in the previous survey round.



Investment outlook witnesses marginal improvement....

In addition, about 48% of the participants cited their intention of undertaking an increase in investments to the tune of 5% or more over the next two quarters. Corporate India has reported better capacity utilization rates in Q4 2020-21. Alongside, lower interest costs have also prodded members of Indian industry to undertake fresh round of investments. While this is an encouraging sign, sustaining this momentum will be an important factor especially when aggregate demand can falter in the coming months.

Sales



Latest survey results report a significant deterioration in outlook of respondents with respect to sales.

Only 31% participating companies anticipated an increase in sales over next two quarters – which was less than half of the 66% respondents stating likewise in the previous round's assessment.

The sharp spurt in covid cases and the extension of lockdowns across states is gravely affecting sales of both goods and services.

...better sales prospects reported by 31% respondents...



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

...outlook on employment and exports also worsens...

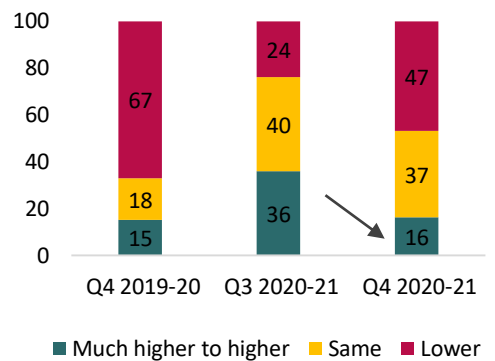
Operational Parameters

Profits

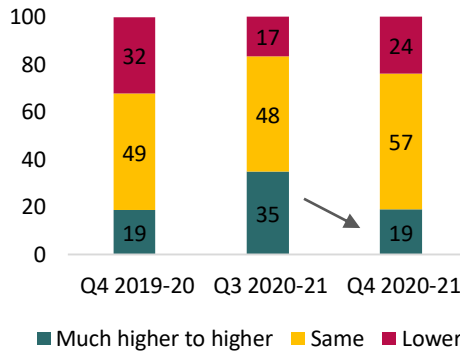
In the present round, outlook on profits also deteriorated. Proportion of participants citing higher profits over next six months declined to 16% in the latest survey from 36% respondents stating likewise in the previous round.

Worsening of sales prospects as well as lower pricing power of corporate India are largely responsible for muted outlook on profits over the next two quarters. In fact, only 9% respondents anticipated an increase in profits by 10% or more in the near term horizon.

(Proportion of respondents)



(Proportion of respondents)



Employment

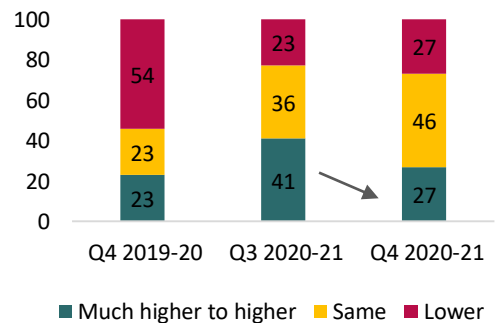
As per the latest survey results, outlook on employment generation has also worsened visibly in the current survey round.

In the present round, 19% respondents said that they foresee hiring new employees over the next six months which is much lower than 35% respondents stating likewise in the previous round.

Exports

The outlook of respondents with regard to outbound shipments were subdued. In the latest survey, 27% respondents said that they foresee higher to much higher exports over next two quarters. The corresponding number in the previous round was 41%. However, 46% participants expected no change in their export position in the near-term future.

(Proportion of respondents)

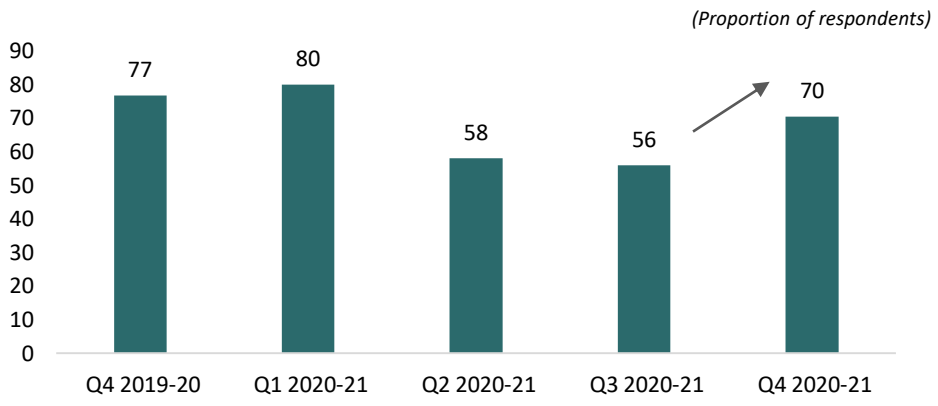


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Constraining Factors

Weak demand once again emerges as a constraining factor for a majority of the respondents

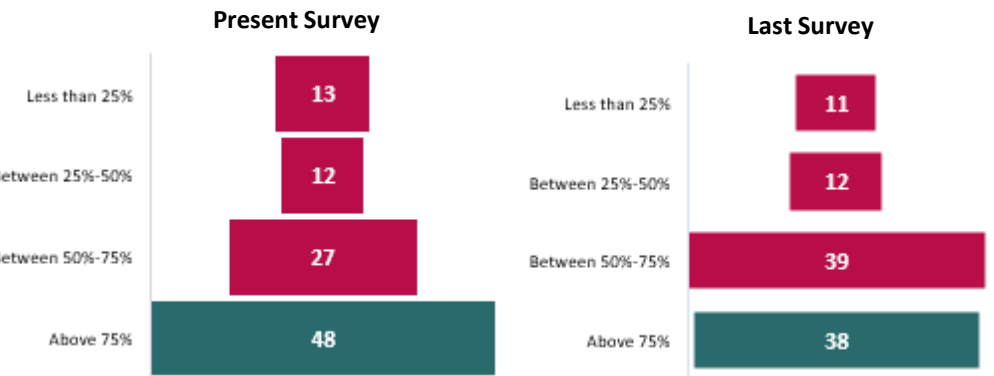
Even though demand conditions witnessed some improvement in the previous two quarters, it took a hit once again in the current round as per our survey results. Around 70% of participating companies cited weak demand as a bothersome factor for their business in the latest round. The corresponding number in the previous round was 56%.



...70% respondents cite weak demand as a constraining factor, highest in three quarters....

However, some improvement was seen in capacity utilization rate amongst members of India Inc. in Q4 2020-21. About 48% respondents, indicated a capacity utilization rate of over 75% in the present round vis-à-vis 38% stating likewise in the previous round. Moreover, the proportion of respondents citing capacity utilization rate of under 50% also noted a mild uptick to 25% in the current round vis-à-vis 23% in the last survey.

Capacity Utilization (Proportion of respondents)



...capacity utilization rate of over 75% reported by 48% respondents...



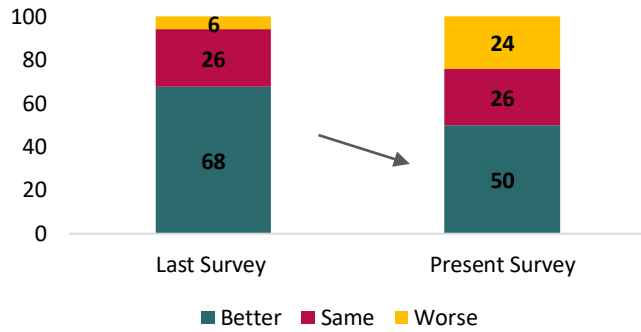
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Constraining Factors

Proportion of respondents anticipating better order books over next six months also deteriorated in the current survey. About 50% companies expected an improvement in their order book position in coming six months vis-à-vis 68% who stated likewise in the previous round.

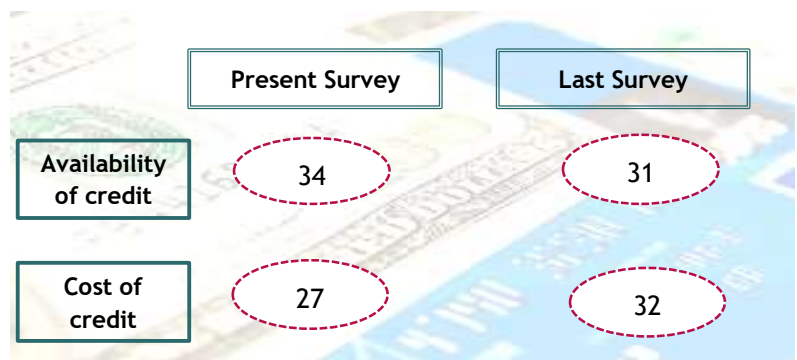
(Proportion of respondents)

Expected order book position over next two quarter



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor noted a decline as compared to the previous round- around 27% participants cited credit costs as a concern.



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Constraining Factors

However, the proportion of respondents citing availability of credit as a major concern noted a marginal increase. About 34% of the respondents cited availability of credit as a bothersome factor. The corresponding number was 31% in the previous round.

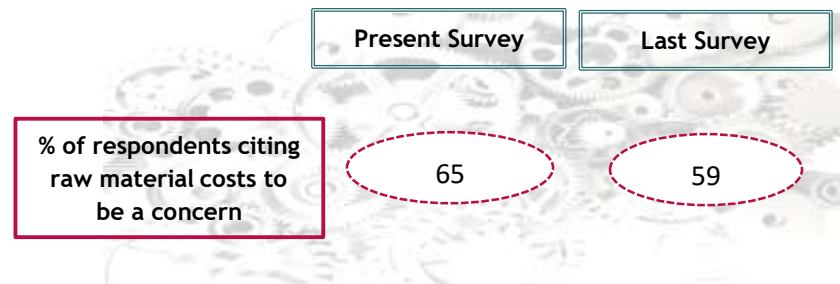
Survey findings indicate that companies are paying an average interest rate of 8.6% on term loans and an average interest rate of 9.1% on working capital loans.

Average Interest on Term Loans: 8.6%
Average Interest on Working Capital Loans: 9.1%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices were reported to be a constraining factor by 65% of the respondents. The corresponding figure in the previous survey round was 59%, and only 36% a year back. This is the fourth consecutive quarter of increase in the proportion of respondents citing higher raw material costs as a bothersome factor.

(Proportion of respondents)



Rising raw material costs pose a major challenge for 65% of the participating companies...

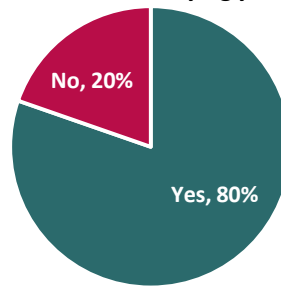
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Impact of Localized Restrictions on Businesses

The fresh surge in covid-19 infections which were being reported in some states during mid-February 2021 in no time took a massive turn and the country was swept by the devastating second wave of the pandemic. Consequently, the Ministry of Home Affairs as well as different state governments started issuing new guidelines focusing on Effective Enforcement of Test- Track- Treat Protocol as well as localized containment zones to limit the spread of the virus. Most states have been extending restrictions to deal with the rapid spread of infections. In this backdrop, companies were asked to share the impact of the lockdowns on their businesses.

(Proportion of respondents)

With some states imposing localized lockdowns, are you facing any concerns in carrying your business?



About 80% of the participating companies said that they were facing issues in carrying out their business amidst the fresh round of localized lockdowns imposed by states. Weak demand and consumer sentiment was the topmost concern flagged by the respondents followed by non-availability of raw materials and manpower shortage (owing to various factors increased infections in family, hesitancy to travel, fear). Increased exposure to risks as well as logistical delays were also highlighted as major constraining factors by participating companies.

Challenges being faced by businesses

Restricted overall operations due to slow testing	Banks not working at optimal levels	Logistics/ Transportation affected/ delayed	Weak consumption sentiment
Fear & negativity surrounding the pandemic	Increased inventory pile up forcing shut down of operations	Increased project costs due to delays	Non-availability of inputs/ high cost of raw materials
Customers/ Staff hesitancy to commute and travel	Threat of increased infections at workplace	Increased risk exposure of businesses	Migration of Labor/ Availability of manpower

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Measures Undertaken by Companies for Ensuring Business Continuity

The second wave of the pandemic has led to severe health crisis and economic implications. The localized lockdowns and restrictions have deeply impacted the business community. Keeping this in mind, companies were asked to share the measures they have taken to ensure business continuity.

A majority of the respondents highlighted that they were strictly following government mandated procedures and encouraging covid appropriate behavior in their premises. Additionally, increased level of digitization from the first phase of infections has helped businesses tide over this wave in a more planned manner.

Measures in place for Ensuring Business Continuity

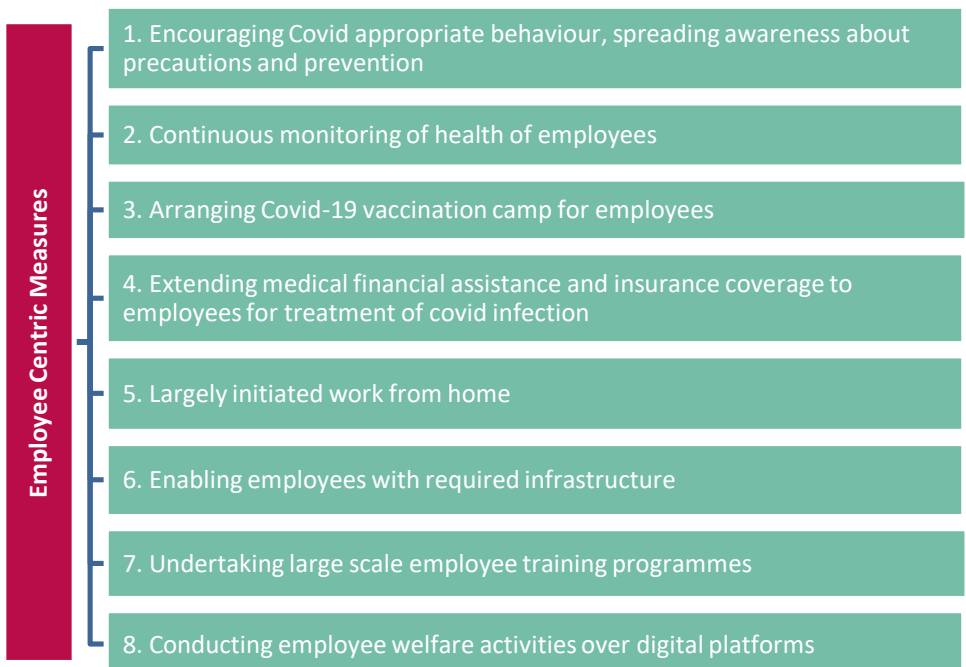
1. Strictly adhering to government mandated procedures, internal standard operating procedures (SOP) in place
2. Increased digitization/automation
3. Ensuring ample liquidity to meet daily needs
4. Building buffer inventory of key inputs
5. Maintaining sufficient stocks to meet urgent demand, ensuring supply chain continuity through better planning
6. Undertaking dramatic reduction in costs through cutting overheads, renegotiating of terms
7. Extending payment periods
8. Increasing exports- Shifting focus to external markets
9. Searching for opportunities in internal markets in states where restrictions are less stringent
10. Product diversification
11. Cleaning operational loopholes including dead inventory, process improvements etc.
12. Adopting innovative ways to safely engage workforce in operations including creation of self-contained units, segmenting employees to maintain maximum social distancing
13. Undertaking investments - setting up new factories/modernizing existing ones

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The respondents also stressed that they were ensuring ample liquidity, maintaining buffers of key inputs as well as final product stocks, shifting focus to external markets where demand is reviving along with greater emphasis on catering to domestic markets that are under less severe restrictions.

Participating companies said that they were also undertaking greater product diversification and are adopting innovative ways to safely engage workforce in operations including creation of self-contained units that segment employees to ensure maximum social distancing.

Lastly, participants emphasized that they were utilizing the current restrictions/ lockdown to clean up operational loopholes including dead inventory, undertake process improvements etc. and are planning to invest in new factories while modernizing existing ones.



Respondents of the survey also outlined various initiatives taken to ascertain employee wellbeing and work continuity. These measures included spreading greater awareness about covid-19 and its prevention, arranging vaccination camps, extending medical financial assistance, enabling employees by providing requisite infrastructure and undertaking large scale employee training and welfare activities through digital means.

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Policy Recommendations for Limiting the Impact on Economy and Businesses

The second wave of covid-19 infections left the health infrastructure of the nation overburdened, shifting the government's focus once again on saving lives. However, imposition of localized restrictions by various state governments has severely impacted business sentiment. In this backdrop and to limit the impact on economy and business, participating companies suggested several measures that could be considered and implemented in an expedited way.

Respondents of the survey unanimously felt that the government must, first and foremost, focus on controlling the covid cases. With India witnessing a record high cases of daily infections and deaths, ensuring strict adherence to covid appropriate behavior and SOPs has become essential. Respondents highlighted that this must be done in tandem with increasing the pace of vaccinations in the country which will act as the biggest stimulus to the economy. They said that only a massive vaccination drive could decouple India's economy from another pandemic induced shock. While the government has fast tracked approval process of many authorized vaccines, ensuring adequate availability will be of utmost importance.

Furthermore, participants strongly believed that regular communication from the government on the status of the pandemic and necessary response measures undertaken is vital to dispel any doubts and panic. This will in turn significantly reduce instances of hoarding and black marketing of essential items and medicines.

While the policy support extended by the RBI on May 5, 2021 (including financial support to MSMEs, enhancement of funds for healthcare infrastructure, announcing resolution framework for covid related stress in case of individuals and MSMEs etc.) was widely acknowledged and appreciated by the industry, several issues on the working of the financial system were raised that require urgent attention and redressal.

A large proportion of the participating companies emphasized that they were unable to avail credit from banks as they have become excessively risk averse. The entire process for approval of loans has become extremely time consuming which severely dampens business prospects. Participants of the survey called upon the banking community to further enhance lending at a reasonable rate to the industry. Alongside, RBI while ensuring ample liquidity in the system must take additional measures to encourage banks to lend more. It is essential that credit is provided to distressed segments of the industry, as well as to those segments which have adequate collateral or have great potential to generate more cash flows as the economy moves towards normalization.

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Furthermore, participating companies felt that any refusal by banks to lend to companies must be backed by a reason and the same must be formally communicated. This would increase transparency of the entire lending process and would instill greater clarity, especially to borrowers whose loan requests were turned down.

In addition, respondents stressed that banks must expedite disbursement of loans under Long Term Repo Operations (LTRO) for Infrastructure Projects as the sector has huge forward and backward linkages.

Apart from this, a majority of the participating companies called for extension of the moratorium on loans, principal and interest payments, for at least another six months. This would help them recover from the losses arising out of the disruptions caused by the second wave of the pandemic.

Lastly, on the financial sector side, participants emphasized on the need for a stable interest rate regime for about 12-18 months. They also recommended that the RBI must continue with being accommodative till sustainable normalcy returns to the system.

The above measures must be supported by adequate fiscal response from the government for the economy to regain its lost momentum. While the first wave witnessed a quicker than anticipated turnaround on the back of revival of private consumption, depleted savings of households from the impact of the first wave, increased healthcare expenditure during the second wave and finally heightened fear around the third wave of the pandemic is likely to significantly dent demand revival this time around.

Companies participating in the survey, therefore, unanimously felt the need for another fiscal package, focusing majorly on addressing the demand side. Targeted support for vulnerable sections of the society is necessary especially with rising infection cases in the rural areas this time around. There is an urgent need for demand boosting measures such as direct income support to rural as well as urban poor, income tax reductions for the middle class and temporary reductions in indirect taxes and these must be considered to enhance income in the hands of the consumer.

Respondents also highlighted the need for continuation of liquidity support and credit enhancement measures to MSMEs as announced in the previous year. They called for targeted fiscal support- in the form of tax waiver and financial assistance- to sectors that were previously kept out of the stimulus package but were deeply impacted by it (including travel, tourism, hotels & hospitality and civil aviation).

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This support must also be extended to sectors that have a high multiplier effect and significant forward and backward linkages such as construction sector. In this regard, it was suggested that the benefits payable under the Building and Other Constructions Workers (Regulation of Employment and Conditions of Service) Act, 1996 be implemented once again to combat the headwinds from the second wave.

In addition, the government must provide employment-based incentives to employers to avert any job losses. This could include temporary fiscal support towards payments of salary for employees in the MSME sector and/ or exempt employers' contribution to PF and ESI for the current fiscal year.

Furthermore, the government must ensure timely refunds of unadjusted taxes and levies to lessen the impact on working capital constraints on small businesses. To speed up refunds on an operational level, respondents recommended adoption of end-to-end paperless transactions.

Participants highlighted the importance of an uninterrupted supply chain network and sought government's intervention to ensure that the same is not hampered in any way. In addition, key industries must be allowed to remain operational with tighter SOPs in place.

Lastly, a majority of the respondents felt that frontloading capital expenditure, by both central and state governments, was the need of the hour as this would greatly build and sustain market sentiments and demand.

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Survey Profile

The survey drew responses from about 180 companies with a turnover ranging from Rs 1 crore to Rs 60,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period April to September 2021.

Broad Sectoral Coverage			
Agricultural Equipment	Textile/Apparel	Chemicals & Pharmaceutical	Infrastructure
Business Services	Financial Services	Metals	Travel & Tourism
Energy	Engineering Goods	Media & Entertainment	Real Estate
Automotive	Consultancy	Electricals	Information Technology
Plastics	Steel & Steel Products	Consumer Products	Art & Entertainment

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