

FICCI

**FICCI's Business Confidence Survey
Q2 2009-10**

December 2009

Federation House, 1, Tansen Marg, New Delhi - 110001



FICCI's Business Confidence Survey Q2 2009-10

FICCI's latest business confidence survey shows...

Indian industry is looking forward to an interest rate cut of about 2.6 percentage points at this point in time, let alone withdrawal of stimulus measures. This is because

Firstly, industry's inflationary expectations are benign.

Secondly, Indian industry is stacking up substantial investments in capacity additions, modernization and green field projects.

Thirdly, while demand has improved it has not yet reached the pre-slowdown level.

Indian industry is also divided on the proposal to scrap sub-PLR lending.

Survey Highlights

- The Indian **economy is showing signs of a sustainable recovery** and the **outlook** for both industrial and overall economic performance is **positive**.
- Majority of the companies that participated in FICCI's latest Business Confidence Survey have reported that the **improvement** seen in overall economic and industrial conditions over the last few months is expected to **continue in the future**.
- Survey participants have indicated that while the stimulus measures announced by the government are showing results on the ground it may be **a little too early to start considering gradual withdrawal of the incentives announced under the fiscal stimulus packages**.
- In fact with the **outlook for sales at the firm level improving** (65 percent of the participating firms are expecting their sales volume to go up in the coming six months) and with **companies once again looking at undertaking fresh investments** (40 percent of the surveyed firms have said that they would enhance their investment levels in the next six months and would largely focus on modernization and expansion of facilities entailing expenditure on new plant and equipment), it would be important that **even the monetary policy variables are not tightened**.
- **Members of Indian industry** are on the contrary **looking at a further cut in interest rates** with the average cut in interest rate payable on term loans and working capital loans being to the tune of 2.7 percentage points and 2.6 percentage points respectively.
- Additionally, companies have suggested that in case the sub PLR lending mechanism is dismantled then the banks should come out in a transparent manner and provide details of

how PLR is arrived at. According to several survey participants, this will lead to **reduction in PLR** and this will be in the interest of all members of the industry.

- The argument for lowering of interest rates by members of Indian industry is perhaps also conditioned by their **outlook on inflation**. Inflationary expectations of members of Indian industry are benign with every three out of four survey participants expecting inflation to settle below the 5 percent mark by end of fiscal 2010.
- In addition to high interest rates, performance of members of corporate India is also being hampered by **weak export performance, rising cost of raw materials** and the **still weak market demand**.



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Survey profile

FICCI's Business Confidence Survey for the second quarter of fiscal 2009-10 drew responses from 358 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 2 crore to Rs. 1,00,000 crore. Respondents to FICCI's Business Confidence Survey were from sectors such as textiles, steel, leather, chemicals and fertilizers, oil and gas, auto and auto components, food processing, electrical equipment and machinery, rubber and rubber products, cement, FMCG, jute, pharmaceuticals, paper, metal and metal products, logistics, financial services and consulting. The survey was conducted during the months of October and November 2009.

Sector	Percentage of respondents
Heavy Industry	52
Light Industry	38
Services	10



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Detailed survey findings

Economy – The results of FICCI's latest Business Confidence Survey indicate that the process of economic recovery is gaining strength. The growth momentum in the economy is once again building up and if the rabi output is good then we may see the economy clock a robust growth of around 7 percent in the in the financial year 2009-10. Already the second quarter GDP numbers, which show the economy growing by 7.9 percent, have highlighted the beginning of the return to the high growth trajectory as seen in the years before the global financial / economic crisis broke out.

In FICCI's latest survey close to 80 percent of the participating companies have reported that the current overall economic conditions are 'moderately to substantially better' as compared to the last six months. While 19 percent of the participating firms feel that there has not been any change in economic conditions over the last six months, 2 percent of the respondents have said that the economic conditions have deteriorated over the last six months. These results mark a complete turnaround from the responses received a year back. In the survey for quarter 2 of 2008-09, while nearly 88 percent of the companies reported that economic conditions have deteriorated over the previous six months, just about 10 percent said that there was some improvement seen in the overall economic conditions.

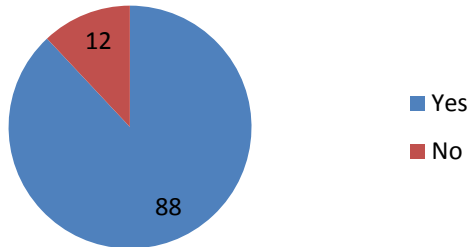
With regard to expectations regarding overall economic conditions over the next two quarters, we again get to see some very positive numbers in the latest survey as a majority 82 percent of the companies have reported that they expect economic conditions to further improve in the near term. Just about 17 percent of the companies mentioned that they do not expect much change in economic condition over the next six months.

The above responses clearly highlight that members of corporate India are becoming increasingly confident about the state of India's economy. In their perception the growth trajectory of Indian economy is once again on the upswing and in the days ahead we can expect improved performance. In fact when asked if the economy is showing signs of a sustainable recovery, nearly 88 percent of the respondents replied in the affirmative.

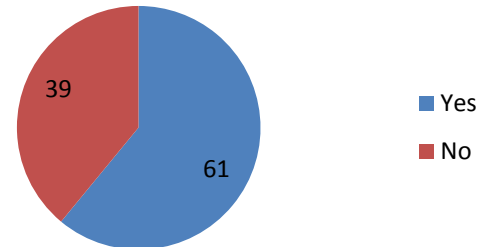
Already in our previous survey, we had noted that the measures taken by the government – fiscal stimulus – were showing results on the ground and were slowly bringing the economy back on track. Members of Indian industry feel that given the state of economy, the fiscal stimulus measures must be in place for some more time with nearly 60 percent of the

participants mentioning that it is still not time to consider gradual withdrawal of incentives offered under the fiscal stimulus packages.

Is the economy showing signs of a sustainable recovery?



Should fiscal stimulus be withdrawn gradually?



Industry – The responses received with regard to industry level performance also point in the direction of continuous improvement. Our last two surveys had pointed out how buoyancy was returning to the industrial sector. In the present survey we see that an even higher number of participating firms have reported improvement in industry performance over the last six months. With regard to industry performance in the next two quarters, again we see that survey participants are much enthused.

Coming to numbers related to industry performance, in the present survey nearly 69 percent of the participating firms said that there has been an improvement in their current industry level performance vis-a-vis last six months. While 27 percent of the firms reported that there has not been any change in industry level performance over the last six months, a miniscule 5 percent reported a dip in their industry performance over the same time period.

As already mentioned, results pertaining to the industry level performance over the next two quarters were also very encouraging. About 77 percent of the participating companies reported that their industry's performance over the next six months would be 'moderately to substantially' better. This was 16 percentage points higher than the proportion of respondents who reported likewise in the last survey. Further, while 20 percent of the companies said that they do not expect much change in their industry performance over the next six months, about 3 percent said that they foresee a worsening of their industry performance.

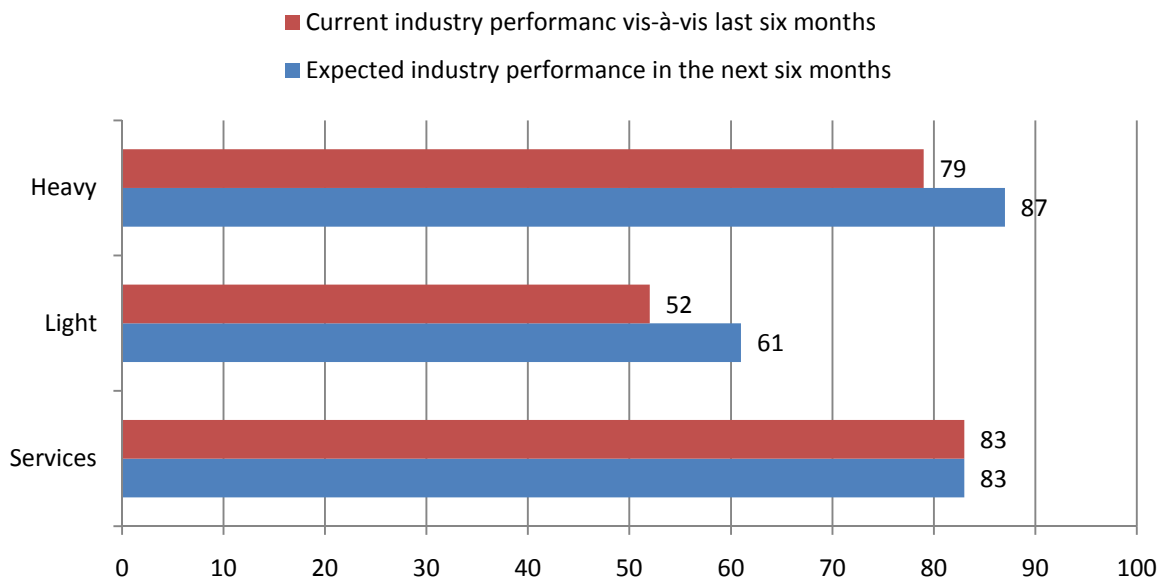
Analysis of sector wise performance shows majority of the respondents from the services and heavy industry segment indicating their current performance vis-à-vis last six months to be 'moderately to substantially' better. In the survey for Q2 2009-10, 83 percent and 79 percent of the participating companies from the services and heavy industry segments respectively said that their current performance is better. The corresponding figures in the last round of the survey were 60 percent and 64 percent for services and heavy industry respectively. However in

case of light industry segment the proportion of participating companies citing an improvement in current performance remained the same as in the last survey at 52 percent.

With regard to expected industry performance over the next two quarters, respondents from the heavy industry segment were found to be the most optimistic with close to 87 percent reporting a likely improvement in their near term performance. The heavy industry was followed by the services sector and the light industry segment in terms of confidence level related to near term performance.

Industry performance – Segment wise

Proportion of respondents in the ‘moderately to substantially better’ bracket



Firm – At the firm level 74 percent of the participating companies reported an improvement in their current performance level vis-a-vis last six months. The corresponding figure in the last survey was 66 percent and in the survey for Q2 of 2008-09 was just 12 percent.

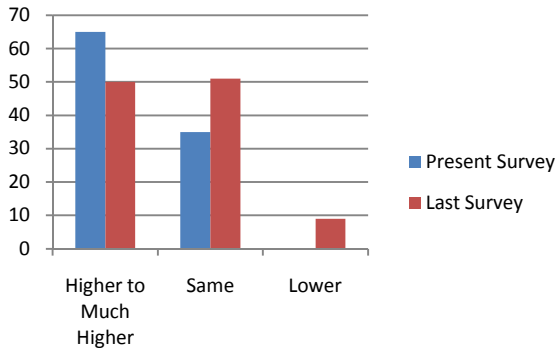
The participating companies were also hopeful of a better performance at the firm level over the next two quarters. Around 80 percent of the respondents said that they foresee a ‘moderate to substantial’ improvement in the firm performance in the coming six months. The corresponding figure in the last round was 72 percent and in the survey for Q2 of 2008-09 was about 34 percent.

These results show that companies are fairly optimistic that as we go ahead things would improve and they will be able to show better performance. Amongst operational parameters at the individual firm level, survey results show that some improvement in outlook is registered in

case of sales and investments. However, the outlook for parameters like profits, exports and employment levels is not very encouraging.

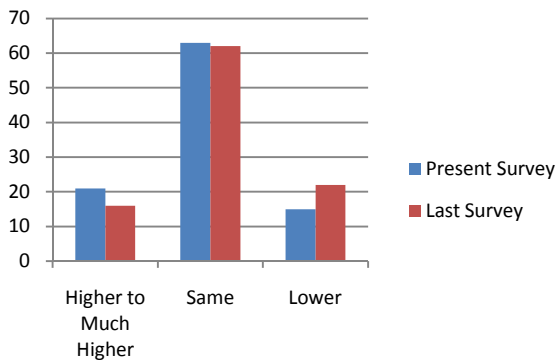
Prospects for the next six months

Sales



In the present survey nearly 65 percent of the participating companies have said that they expect their sales volume to go up in the coming six months. This figure is 15 percentage points higher than the 50 percent of the respondents who had reported likewise in the last survey. Amongst the three sectors, we find that companies from the services and the heavy industry segment are most optimistic about their near term sales performance.

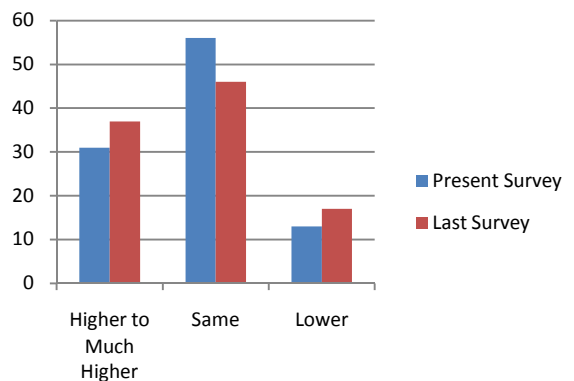
Selling Price



The pricing power is still to return back to the industry as close to 63 percent of the companies have said that their sale prices would remain the same in the near term. While another 15 percent have reported that sale prices could be cut in the next six months, about 21 percent feel that the price of their products may be raised in the coming six months.

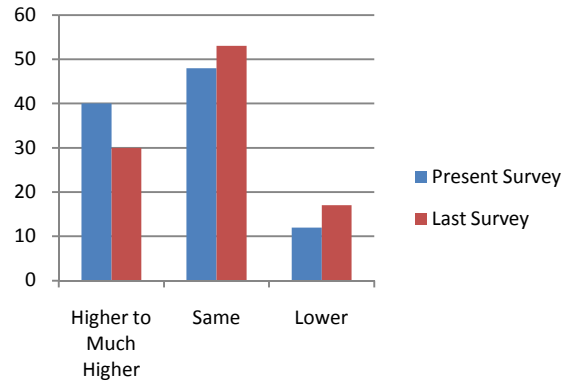
With regard to profits, we see that about 56 percent of the companies have said that they do not expect any change in their profit levels over the next six months. While 31 percent of the companies have reported a likely improvement in profitability over the next six months, about 13 percent hold a downside view with regard to profits.

Profits



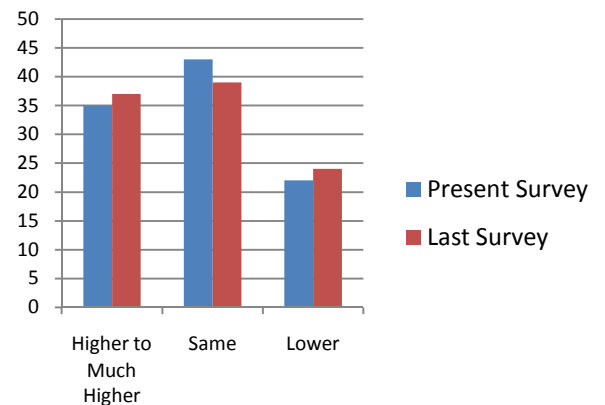
About 40 percent of the respondents have said that they expect their investment levels to go up in the coming six months. In the previous survey nearly 30 percent of the companies reported likewise. While 48 percent of the companies have said that they would maintain their present investment level in the coming six months, nearly 12 percent said that their investments would go down in the coming two quarters. It is important to note that companies planning to enhance their investments would be largely focusing on modernization and expansion of existing facilities.

Investment

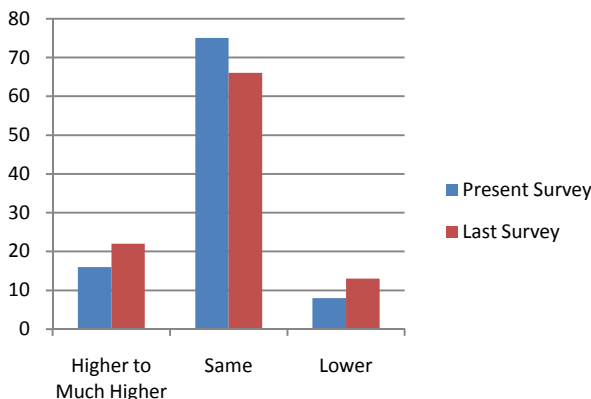


India’s overall export performance when viewed in terms of year on year growth on a monthly basis shows that we are still clocking negative growth and this trend has been going on for now almost thirteen months. However, the good thing is that the fall seen in exports is getting arrested with time. The responses to the BCS also reflect this with the proportion reporting a likely decline in exports over the next six months being 22 percent as against 57 percent who reported likewise one year back. It is encouraging to note that nearly 35 percent of the companies have said that their export levels could go up in the next six months.

Exports



Employment



The outlook for jobs remains benign with just about 16 percent of the companies reporting that they would add to their rolls in the next two quarters. With nearly three quarters of the participating firms saying that their employment levels would remain the same over the next two quarters, one can say that recruitment activity in the industry is still not happening at a very encouraging pace.

Forecast for the next six months

(All figures are in % and refer to proportion of respondents)

	Decline	Increase 0% -5%	Increase 5% -10%	Increase 10%-20%	Increase 20%-30%	Increase > 30%
Sales	1	33	24	33	7	2
Profits	7	52	20	16	4	1
Exports	16	44	16	19	5	1

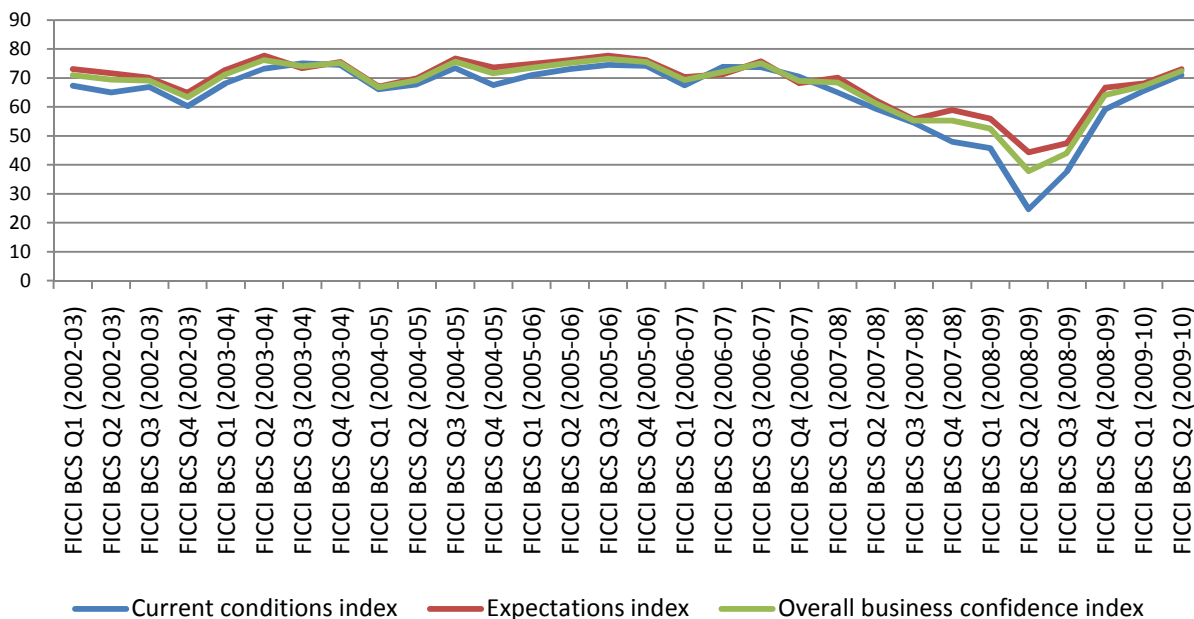
Confidence Indices

With the questions pertaining to current and expected performance at the economy, industry and firm level all seeing a better response in the present round of the survey, the confidence indices have gained and moved up.

The **Current Conditions Index** has moved up almost six places in the present round of the survey registering a value of 71 as against 65.4 in the last survey. The **Expectations Index** has moved upwards to 73.1 in the present survey from its value of 68.1 in the last survey.

With both the Current Conditions Index and the Expectations Index gaining in value, the **Overall Business Confidence Index** has also marched up. The index, which stood at 67.2 in the last survey, has taken a value of 72.4 in the present survey.

Confidence Indices



Constraining factors

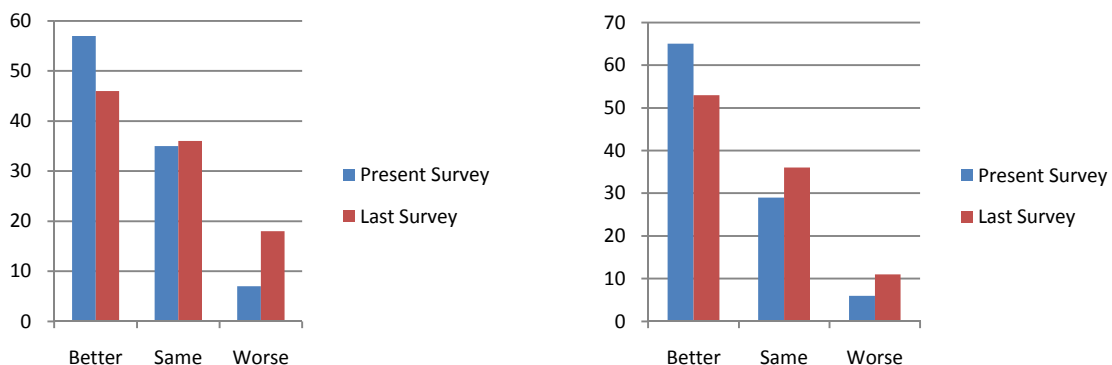
(Figures pertain to proportion of respondents citing the factor as a problem area)

Problem Area	FICCI BCS	FICCI BCS	FICCI BCS
	Q4 2008-09	Q1 2009-10	Q2 2009-10
Weak demand	74	66	62
Threat of imports	21	34	34
Constrained availability of credit	29	27	20
High cost of credit	45	41	37
Infrastructure	29	36	35
Rising cost of raw materials	45	55	52
Rising manpower costs	42	45	42

Among the factors that are adversely affecting business performance, weakness in market demand emerged as the key concern with almost 62 percent of the surveyed companies making this point. Although this figure is much below the figure of 84 percent that was obtained in the year ago survey, yet it is still sizable and therefore indicates that the government will have to be very careful whenever it decides to start withdrawing the measures that were announced as part of the fiscal stimulus packages.

It is also interesting to note that majority of the surveyed companies are anticipating an improvement in their order book position in the coming six months. In the present survey close to 65 percent of the companies have said that they foresee an improvement in their order book position in the coming two quarters. In the last survey this figure stood at 53 percent.

Current order book position vis-à-vis last six months Expectations about order book position six months hence



With more and more companies gaining confidence with regard to upcoming business, any move on part of the government or the RBI that signals withdrawal of the supporting policy measures that were announced earlier could dent the confidence level of members of

corporate India. At a time members of India Inc are looking at better and improved performance, the policy framework in place should be such that it supports industrial and economic activity levels.

Another area of concern as mentioned by the respondents is the rising cost of raw materials. Already we are seeing that with the global economy showing some signs of stabilizing, the price of oil and other commodities are once again moving northwards. These are feeding into the prices which companies here in India have to pay for their raw materials, and as a result a majority 52 percent has reported that rising prices of industrial inputs and raw materials is a concern.

On the issue of rising prices, the survey participants were also asked to indicate what in their opinion would be the inflation level at the wholesale level in India by the end of the current financial year. The responses received to this question are shown in the table below. As the data shows, a little over a quarter of the respondents feel that inflation level would breach the 5 percent mark by the end of March 2010. While 45 percent feel that inflation would be in the range of 3 percent to 5 percent by the end of March 2010, the remaining 30 percent were of the opinion that inflation would settle between 1 percent and 3 percent by March 2010. These numbers indicate that in the present scenario, a large proportion of members of Indian industry do not have high inflationary expectations.

Where would inflation rate move by the end of fiscal 2010 (March 2010)?

(Figures indicate proportion of respondents)

Range	Proportion of respondents
Between 1% to 2%	12
Between 2% to 3%	17
Between 3% to 4%	21
Between 4% to 5%	23
Between 5% to 6%	13
Between 6% to 7%	5
More than 7%	8

With regard to availability of credit, the improvement continues with only one in five companies reporting that they face difficulties in obtaining credit from the financial institutions and banks. The liquidity situation in the financial system is quiet comfortable and there are adequate funds that are available with lenders to meet the industry's requirement.

While availability of credit may not be that a big an issue for a very large proportion of companies, the cost of credit certainly is as nearly 37 percent of the surveyed firms have said that high interest rates continue to affect their business performance. In fact in the present

survey companies were asked to indicate the average interest rates that they are paying to banks for term loans and working capital loans. Companies participating in the survey were also requested to indicate the interest rates they would be comfortable paying on both term loans and working capital loans. The data provided by the companies on these questions was analysed and the following key results emerged.

TERM LOAN

- The interest paid by companies surveyed on term loan varied from 7.5 percent to 14 percent
- The interest companies are comfortable paying on term loan varies from 6 percent to 10 percent
- The average interest rate paid by companies surveyed on term loan comes to around 11.2 percent
- The average interest rate companies surveyed would be comfortable paying is 8.6 percent
- The average reduction companies surveyed want on interest rate payable on term loans is 2.7 percentage points

WORKING CAPITAL LOAN

- The interest paid by companies surveyed on working capital loan varied from 7 percent to 13 percent
- The interest companies are comfortable paying on working capital loan varies from 6 percent to 10 percent
- The average interest rate paid by companies surveyed on working capital loan comes to around 11.5 percent
- The average interest rate companies surveyed would be comfortable paying is 8.9 percent
- The average reduction companies surveyed want on interest rate payable on working capital loans is 2.6 percentage points

It may be pointed out that it is the SME segment of the industry that is paying interest at rates that fall on the higher side of the above mentioned limits / range. The above numbers clearly indicate that there is scope for further reduction in interest rates on both term loans and working capital loans. According to survey participants, the average reduction in interest rates for term loan and working capital loan should be about 2.7 percent and 2.6 percent respectively.

Another related point on interest rates is the proposal now under consideration to restrict disbursement of loans at sub-PLR rates. While the RBI is still to arrive at a decision on this subject, FICCI asked the companies participating in the survey to share their opinion on this important matter. And the responses received from industry show that there is divergence of opinion on



this issue amongst members of Indian industry. While the small and medium sized companies feel that such a move would bring in parity in the way banks evaluate borrowers from different segments of the industry, the large players on the other hand feel that this move would result in escalation of interest costs for them as many of them are today availing loans at sub PLR rates. While this is the case, there is also a feeling amongst a majority of the survey respondents that in case sub PLR lending is done away with then banks should come out in a transparent manner and give details on how they have arrived at their PLR. Many survey respondents feel that this would lead to lowering of PLR and this will therefore be in the interest of all members of Indian industry.

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Survey at a glance

		FICCI BCS Q2 2008-09	FICCI BCS Q3 2008-09	FICCI BCS Q4 2008-09	FICCI BCS Q1 2009-10	FICCI BCS Q2 2009-10
1a	Current overall economic conditions vis-à-vis the last six months					
	Moderately to Substantially better	9	9	57	69	79
	Same / No change	4	27	25	21	19
	Moderately to Substantially worse	88	64	18	10	2
1b	Expectations for overall economic conditions for the next six months					
	Moderately to Substantially better	22	30	69	73	82
	Same / No change	26	32	21	17	17
	Moderately to Substantially worse	52	38	10	10	1
2a	Current industry performance vis-à-vis the last six months					
	Moderately to Substantially better	7	15	46	60	69
	Same / No change	11	30	36	26	27
	Moderately to Substantially worse	81	55	18	14	5
2b	Expectations for industry performance in the next six months					
	Moderately to Substantially better	23	25	64	61	77
	Same / No change	28	38	25	31	20
	Moderately to Substantially worse	49	38	11	8	3
3a	Current firm level performance vis-à-vis the last six months					
	Moderately to Substantially better	12	21	47	66	74
	Same / No change	11	29	39	23	24
	Moderately to Substantially worse	78	50	14	11	1
3c	Expectations regarding firm level performance in the next six months					
	Moderately to Substantially better	34	35	68	72	79
	Same / No change	30	31	26	23	19
	Moderately to Substantially worse	36	34	6	5	2
4	Confidence Indices					
	Current Conditions Index	24.7	37.6	59.1	65.4	71.0
	Expectations Index	44.3	47.4	66.6	68.1	73.1
	Overall Business Confidence Index	37.8	44.0	64.1	67.2	72.4
5	Problem areas					
	Weak Demand					
	Yes	84	85	74	66	62
	No	16	15	26	34	38
	Threat of imports					
	Yes	35	25	21	34	34
	No	65	75	79	66	66
	Constrained availability of credit					

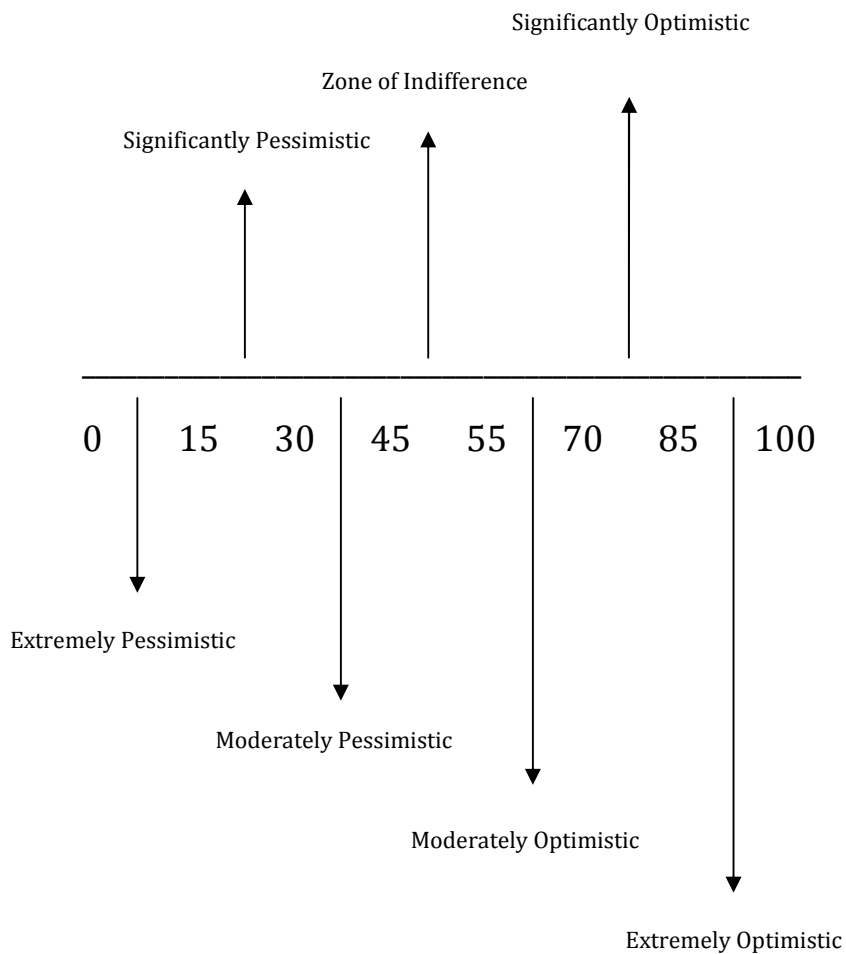
	Yes	44	33	29	27	20
	No	56	67	71	73	80
	High cost of credit					
	Yes	60	40	45	41	37
	No	40	60	55	59	63
	Rising raw material prices					
	Yes	30	45	45	55	52
	No	70	55	55	45	48
6	Present capacity utilization					
	Less than 25%	3	3	0	2	1
	Between 25% and 50%	17	16	16	19	16
	Between 50% and 75%	38	38	41	30	30
	More than 75%	41	43	43	49	53
7	Prospects for the next six months					
	Investments					
	Much higher	0	0	1	5	5
	Higher	15	25	24	25	35
	Same / No change	32	35	51	53	48
	Lower	54	40	24	17	12
	Sales					
	Much higher	0	2	3	2	2
	Higher	24	29	54	48	63
	Same / No change	35	38	34	41	35
	Lower	41	31	9	9	0
	Selling price					
	Much higher	0	0	0	0	1
	Higher	5	5	13	16	20
	Same / No change	33	43	60	62	63
	Lower	62	52	27	22	15
	Profit					
	Much higher	0	1	0	1	1
	Higher	10	18	33	36	30
	Same / No change	29	26	36	46	56
	Lower	60	54	31	17	13
	Exports					
	Much higher	0	1	0	3	0
	Higher	13	16	26	34	35
	Same / No change	30	23	39	39	43
	Lower	57	59	36	24	22
	Employment					
	Much higher	0	0	1	1	1
	Higher	6	6	14	21	15
	Same / No change	55	59	75	66	75
	Lower	39	35	9	13	8

Annexure 1

The Composite Business Confidence Index is based on questions pertaining to the overall economic conditions, the sector or industry level situation and the organization or company level situation. The index is a three-stage weighted average relating to:

The current situation vis-à-vis the situation in the last six months and
The expected situation in the next six months

Zones of Business Confidence



Annexure 2

Sectoral Classification

Heavy Industry	Light Industry	Services
Chemicals and chemical products	Food products	Trade
Rubber, plastic, petroleum and coal products	Beverages, tobacco and other related products	Hotels and tourism
Non-metallic mineral products	Products of wool, silk, jute, rubber, leather	Transportation
Basic metal and alloys	Cotton textiles	Consultancy
Metal products	Textile products and wearing apparel	Communication
Machinery and equipment	Wood and wood products	Financial services
Transport equipment and parts	Furniture and fixtures	Business services
Mining	Paper, paper products and printing	Real estate
	Publishing and allied industries	IT/Software
	Leather and fur products	BPO