



FICCI's Business Confidence Survey

May 2011

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Survey highlights

- Results of the previous round of FICCI's Business Confidence Survey, released in February 2011, showed that there had been a perceptible decline in the confidence level of corporate India. Findings of the present survey indicate that the confidence level of corporate India continues to be marred by concerns over high inflation, slow down of growth, continuous rise in interest rates and incessant increase in raw material prices.
- Majority of survey respondents feel that the 9 percent growth target for 2011-12 set earlier by the Ministry of Finance is not going to be achieved. The downside view to overall economic growth held by Indian businesses corroborates the recent admissions by both RBI and the government that growth in the current fiscal could be in the range of 8 to 8.5 percent.
- The proportion of companies citing weak demand as a constraining factor to overall business performance has gone up to 34 percent in the present survey. This marks an increase of almost ten percentage points over results of our previous survey in which 24 percent of the surveyed companies had reported likewise.
- As a way out from the slowdown phase, members of Indian industry want the authorities to take action in five areas. According to survey participants, the strategy to revitalize industrial and economic growth in the country should include –
 - Lowering of interest rates, particularly the cost of credit for SMEs
 - Fastening the pace of implementation of infrastructure projects
 - Checking the incessant rise in the price of industrial inputs and raw materials
 - Continuing with incentives offered to exporters
 - Maintaining fiscal discipline
- Survey participants have mentioned that continuous additions to power generation capacity, introduction of Goods and Services Tax at the earliest and greater focus on encouraging value addition in the agriculture sector are also very important for encouraging overall economic and industrial growth.
- Rising cost of raw material continues to be a major point of botheration for members of corporate India. About 85 percent of the participants said that high raw material costs are acting as a constraining factor for them. Given the global developments, the outlook for international oil prices and commodities is not very encouraging and we can expect rising prices of industrial inputs to keep putting pressure on industry players in the months ahead.

- To tide over the problem of increasing raw material prices, members of corporate India are taking an array of measures and some of these include –
 - Backward integration for securing raw materials
 - Minimizing wastages and improving sales
 - Re-engineering product designs
 - Tightening control over inventory levels
 - Exploring usage of alternative raw materials / substitute inputs
 - Advance buying of key raw materials
 - Hedging in the global markets
 - Improving management of supply chains
 - Increasing products prices

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Survey profile

The present round of FICCI's Business Confidence Survey, which brings out expectations of members of corporate India for the period April to September 2011, drew responses from 252 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 1 crore to Rs. 2,50,000 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, rubber and rubber products, food processing, electrical equipment and machinery, FMCG, pharmaceuticals, metal and metal products and business services. The survey was conducted during the month of April 2011.

Sector	Percentage of respondents
Heavy Industry	69
Light Industry	21
Services	10

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Detailed survey findings

Economy – The results of FICCI's latest Business Confidence Survey show that the perception of members of corporate India about the strength of the overall economic situation has weakened further. In fact, in our previous survey, conducted at the end of the third quarter of 2010-11, a sharp decline was noticed in the proportion of firms reporting an improvement in the overall economic conditions over the previous six months. In the present survey, conducted at the end of the fourth quarter, this figure has come down further.

As the table given at the end of this report shows, while 82 percent of the survey participants [in the survey conducted at the end of second quarter of 2010-11] felt that overall economic conditions had improved, this figure came down to 57 percent in the subsequent survey and further down to 47 percent in the present survey.

Further, in the present survey 36 percent of the respondents said that there has been no change in the overall economic conditions over the previous six months. This figure is almost double the proportion of respondents who reported likewise in the previous survey. The remaining 17 percent of the respondents said that the overall economic conditions have deteriorated.

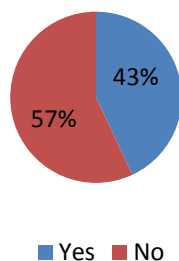
With regard to near term economic conditions, not much change is seen in the responses received in the previous and the current survey. In the present survey 49 percent of the respondents said that they expect overall economic conditions to be 'moderately to substantially better' over the next two quarters. The corresponding figure was almost same (at 50 percent) in the last survey but was much higher at 82 percent a year back. About 38 percent of the participants reported that they expect no change in the economic situation over the coming six months.

The feedback on overall economic conditions received from survey participants is in line with the emerging economic trends. Macro data shows that inflation continues to be a serious concern showing only limited signs of easing even as RBI has raised key policy rates nine times since March 2010. The tightening of monetary policy has led to an upward shift in the interest rate structure and this is going to have a bearing on the overall economic activity in the country. Signs of rising interest rates hurting investment activity – a key driver of economic growth – are already visible.

In addition to rising interest rates, another downside risk to overall growth in 2011-12 is the elevated level of international oil prices. Given the developments taking place in the Middle East and North Africa region, the outlook for global oil prices is quite uncertain and any further increase can only have a negative impact on the growth trajectory of a large energy importer like India.

In context of overall economic performance, it may be mentioned that a majority of survey respondents feel that the 9 percent growth target for 2011-12 set earlier by the Ministry of Finance is not going to be achieved. The downside view to overall economic growth held by Indian businesses corroborates the recent admissions by both RBI and the government that growth in the current fiscal could be in the range of 8 to 8.5 percent.

Do you think 9% growth in 2011-12 is achievable?



Industry – The responses received to the questions pertaining to industry performance present a mixed picture. While we see that the proportion of firms citing an improvement in current industry performance vis-à-vis last six months has gone down between the previous and the current survey, the proportion expecting an improvement in near term industry performance has gone up between the previous and the current survey.

As detailed numbers given later show, in the survey conducted at the end of the third quarter of 2010-11, nearly 57 percent of the firms had reported that their own industry's performance had improved over the previous six months. In the present survey, this figure has come down to 46 percent.

However, results for expected near term industry performance are a little different with the proportion expecting improvement in industry performance going up from 54 percent in the survey conducted at the end of third quarter of 2010-11 to 62 percent in the present survey.

It may be recalled that industrial production numbers have been particularly weak – remaining at low single digit levels – during the period November 2010 to February 2011. While in November 2010, industrial output grew by 3.6 percent, in December 2010 growth was just about 2.5 percent. In January 2011, industrial production growth moved up to 3.9 percent but again came down to 3.6 percent in February 2011. These numbers are a cause for concern as these reflect loss of momentum in industrial activity in the country. Although growth in March 2011 picked pace touching 7.3 percent, this does not establish a reversal in the weakness seen earlier.

Industrial activity numbers in the coming months will have to be carefully watched and here findings of the current survey - with 62 percent of the respondents expecting own industry performance to improve in the next six months - is encouraging.

In fact in the present survey, we asked the participating firms on what steps they think should be taken to revitalize industrial growth in the country. And the responses received show that there are five areas where members of Indian industry want the authorities to take action as these would boost overall growth in the economy. The steps suggested by survey participants are –

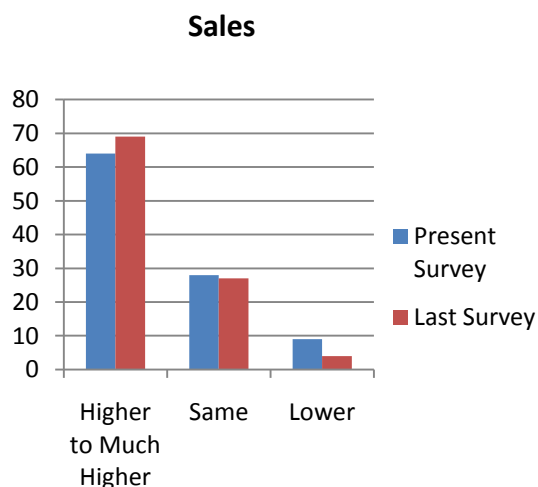
- Lowering of interest rates, particularly the cost of credit for SMEs
- Fastening the pace of implementation of infrastructure projects
- Checking the incessant rise in the price of industrial inputs and raw materials
- Continuing with incentives offered to exporters
- Maintaining fiscal discipline

Survey participants have mentioned that continuous additions to power generation capacity, introduction of Goods and Services Tax at the earliest and greater focus on encouraging value addition in the agriculture sector are also very important for encouraging overall economic and industrial growth.

Firm – With regard to performance at the firm level, nearly 60 percent of the surveyed companies have reported that their current firm level performance is ‘moderately to substantially’ better vis-à-vis the last six months. In our previous survey this figure stood at 68 percent. Further, while 27 percent of the respondents said that there has been no change in their own firm’s performance over the last six months, nearly 12 percent reported deterioration in firm level performance over the same time.

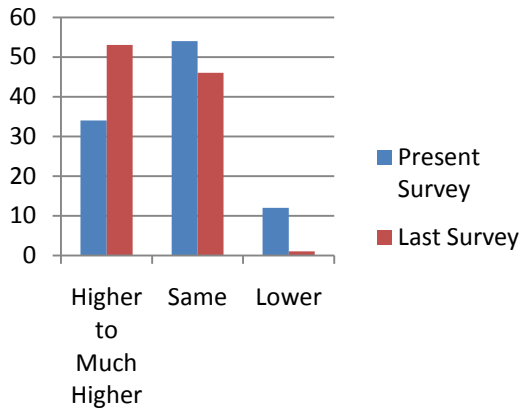
With regard to firm level performance in the coming six months, nearly 64 percent of the companies said that they expect their own performance to improve in the next two quarters. This figure is only 5 percentage points lower compared to results obtained in our previous survey. Further, while nearly 30 percent of the firms said that they expect no change in their own performance in the near term, about 7 percent expressed apprehension of performance falling from present levels in the months ahead.

Prospects for the next six months



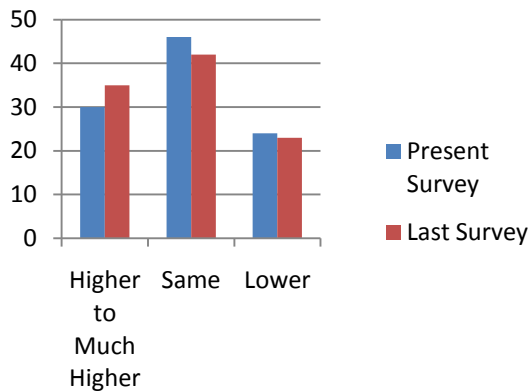
In the current survey 64 percent of the participating companies said that they foresee an increase in sales over the next six months. In the last survey the corresponding figure was 69 percent. Further, about 9 percent of the surveyed companies indicated that they expect sales volume to go down in the near term. In the last survey 4 percent of the companies had reported likewise. The remaining 28 percent of the companies said that they expect their sales volume to remain same in near term.

Selling Price



In the previous survey a huge jump was seen in the in the proportion of respondents reporting an increase in prices in the coming six months. In the present survey, this proportion has come down. About 34 percent of the participants in the present round said that they plan to increase the price level over the next six months. The corresponding figure in the previous survey was 53 percent. Further, while 54 percent of the companies expect no change in prices, the remaining 12 percent cited a decline.

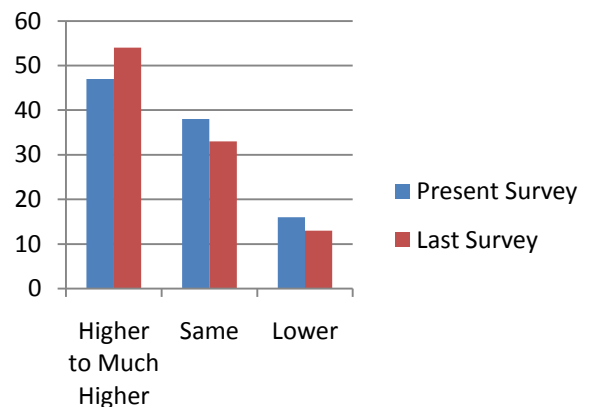
Profits



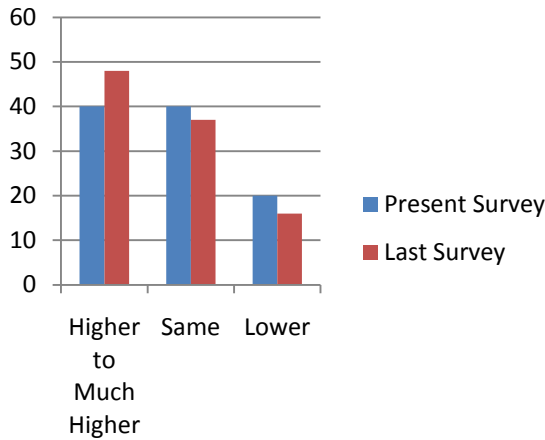
The pressure on profit margins continues to remain. About 30 percent of the participating companies said that they anticipate an increase in their profits margins in near future. This was 5 percentage points lower than the proportion of respondents who responded likewise in the previous survey. Further, while 46 percent of the respondents cited no change in the profit margins in the coming six months, the remaining 24 percent expected a decline.

With regard to investment prospects some signs of moderation are emerging with the proportion of companies planning higher investment outlays coming down from 54 percent in the last survey to 47 percent in the present round. Further, while 38 percent of the firms said that they expect investment levels to remain the same in the coming six months, about 16 percent reported that they plan to cut back on planned investments in the near term.

Investments

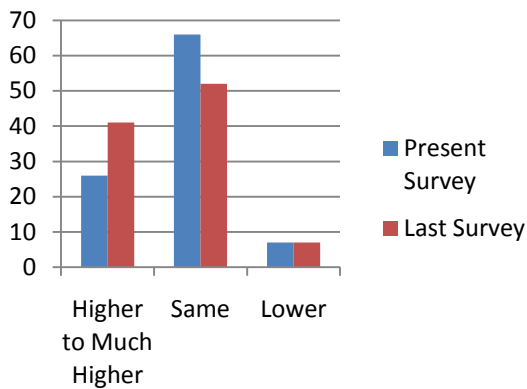


Exports



The numbers for expected export performance in the coming six months also indicate some moderation. In our previous survey nearly 48 percent of the firms had reported that they expect an improvement in their export performance in the near term. In this survey, this figure has dropped to 40 percent. With another 40 percent expecting not much change in export performance and the remaining 20 percent reporting a likely decline, overall export performance may come under some pressure in the days ahead.

Employment



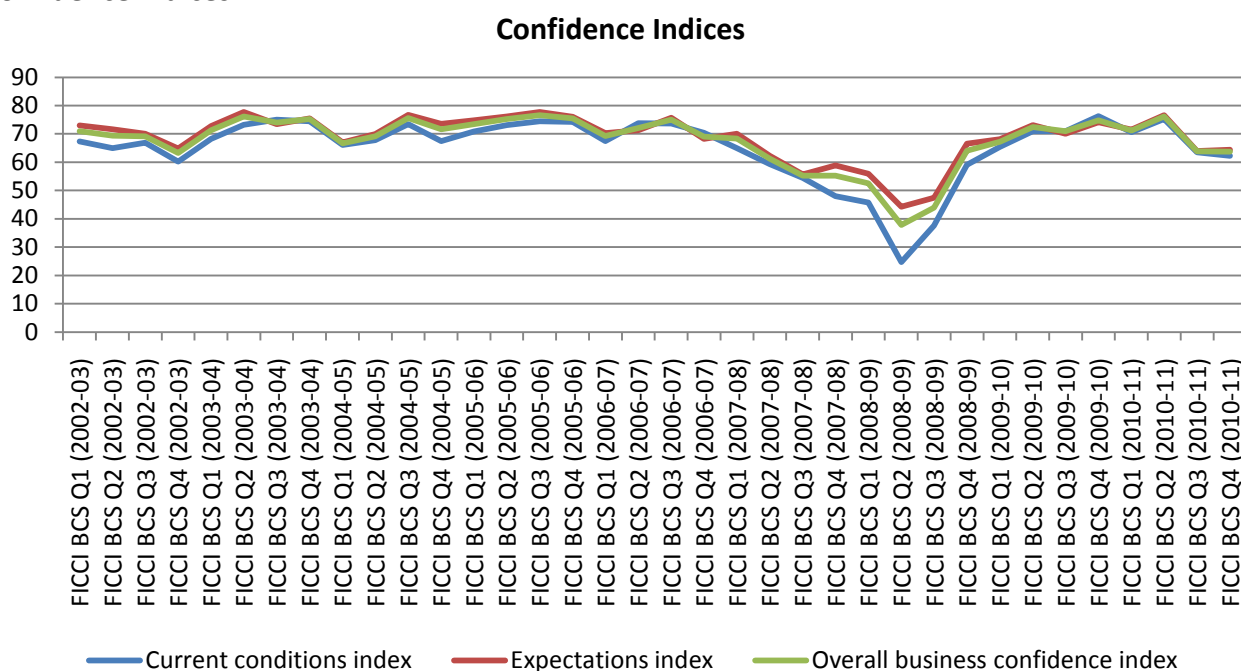
After showing some improvement in the previous survey the prospects for employment have again weakened. While in the previous survey nearly 41 percent of the surveyed firms had reported that they would add more people to their workforce, this figure has come down substantially to just about 26 percent in the present survey. A majority 66 percent of the firms would continue with their existing workforce levels in the coming six months.

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	10	30	27	20	11	2
Profits	23	35	22	12	7	1
Exports	21	29	26	13	4	6

Confidence Indices



In FICCI's Business Confidence Survey released just ahead of the budget for 2011-12, a large dip was reported in the confidence level of corporate India. The overall business confidence index had dropped from 76.2 [in the survey conducted at the end of the second quarter of 2010-11] to 63.8 [in the survey conducted at the end of the third quarter of 2010-11].

Results of our latest survey indicate that there has been not much change in the mood of corporate India between our two most recent surveys. However, what is noticeable is that while evaluation of current performance or current conditions has deteriorated, a slight uptick is seen with regard to expectations about near term performance. But on the whole the overall business confidence index has remained at the same level it was in the previous survey.

With survey participants reporting moderation in current performance vis-à-vis last six months at all the three levels – economy, industry and firm, the current conditions index has come down from 63.5 in the previous survey to 62.3 in the present survey.

Further, with survey participants not registering any improvement in their expectations for near term performance at all levels except industry, the expectations index has just moved a little upwards from 64 in the previous round to 64.4 in the present survey.

The overall business confidence index continues to be at the level of 63.7 as seen in the previous round.

Constraining factors

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

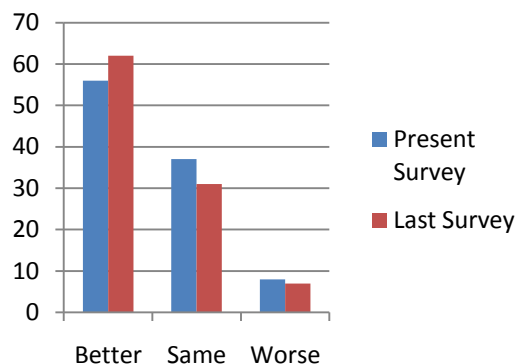
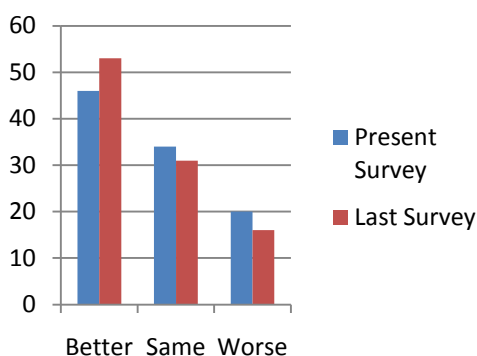
Problem Area	FICCI BCS	FICCI BCS	FICCI BCS	FICCI BCS	FICCI BCS
	Q4	Q1	Q2	Q3	Q4
	2009-10	2010-11	2010-11	2010-11	2010-11
Weak demand	22	23	26	24	34
Threat of imports	26	38	35	29	27
Constrained availability of credit	19	8	21	17	20
High cost of credit	43	39	46	53	55
Infrastructure	39	35	42	35	37
Rising cost of raw materials	85	77	79	90	85
Rising manpower costs	72	65	59	70	74

If we look at the results of successive rounds of FICCI's Business Confidence Survey over the last one year then we see that till our last survey about a quarter of the survey respondents used to cite weak demand conditions as one of the constraining factors to their overall business performance.

However, in the present survey this figure has jumped by almost ten percentage points with 34 percent of the companies reporting weak demand as a constraining factor. With overall growth slowing down and with interest rates set to remain high [at least in the near term], the demand conditions in the economy could continue to ease in the months ahead. This variable will therefore have to be closely monitored going ahead.

The concern about the weakening demand situation is further reiterated if one looks at the results pertaining to the order book position of the companies. In the present survey 46 percent of the companies said that their current order book position is better vis-à-vis last six months. The corresponding figure last time was 53 percent. Further, the percentage of companies citing weakening of order book positions has gone up by about 4 percentage points in the current round. In the last survey 16 percent of the companies had reported that their order book position had weakened over the previous six months. In the current round 20 percent of the participants reported likewise.

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



Similarly, the numbers for likely change in order book position six months ahead also point towards some moderation in demand. About 56 percent of the participants in the current survey indicated that they expect their order book position to improve in the coming six months. This figure is lower than 62 percent of the companies who reported likewise in the previous survey. Further, while 37 percent of the companies said that they expect no change in the order book position in near term, the remaining 8 percent expect order book position to weaken.

Amongst other factors, we see a slight increase in the proportion of firms citing constrained availability of credit and high cost of credit as impediments to their businesses. These trends invariably are the result of the contractionary monetary policy stance of the central bank to beat inflation. The key policy rates have been increased by RBI nine times since March last year and banks have followed these cues by introducing a hike in their base rates. This has also been the primary reason behind moderation in demand levels and could have a further bearing on overall industrial growth.

Further, rising cost of raw material continues to be a major point of botheration for members of corporate India. About 85 percent of the participants said that high raw material costs are acting as a constraining factor for them. Given the global developments, the outlook for international oil prices and commodities is not very encouraging and we can thus expect rising prices of industrial inputs to keep putting pressure on industry players in the months ahead.

As increasing price of industrial inputs has been a running theme for a long time now, we asked the survey participants on how they were managing this difficult position. And the feedback received shows that companies are taking a combination of some of the following measures to rein in rising input costs –

- Backward integration for securing raw materials
- Minimizing wastages and improving sales
- Re-engineering product designs
- Tightening control over inventory levels
- Exploring usage of alternative raw materials / substitute inputs

- Advance buying of key raw materials
- Hedging in the global markets
- Improving management of supply chains
- Increasing products prices

Finally, rise in manpower costs is also having an adverse bearing on the performance of nearly three quarter of the survey respondents. As in the past, companies have reported that wage increase demands are gathering pace given high inflation.

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Survey at a glance

		FICCI BCS Q4 2009-10	FICCI BCS Q1 2010-11	FICCI BCS Q2 2010-11	FICCI BCS Q3 2010-11	FICCI BCS Q4 2010-11
1a	Current overall economic conditions vis-à-vis the last six months					
	Moderately to Substantially better	87	78	82	57	47
	Same / No change	11	16	16	19	36
	Moderately to Substantially worse	1	7	2	24	17
1b	Expectations for overall economic conditions for the next six months					
	Moderately to Substantially better	82	72	83	50	49
	Same / No change	18	24	16	38	38
	Moderately to Substantially worse	0	4	1	12	13
2a	Current industry performance vis-à-vis the last six months					
	Moderately to Substantially better	87	71	77	57	46
	Same / No change	9	20	20	22	35
	Moderately to Substantially worse	4	9	4	22	20
2b	Expectations for industry performance in the next six months					
	Moderately to Substantially better	82	68	80	54	62
	Same / No change	15	23	20	32	24
	Moderately to Substantially worse	3	9	0	14	14
3a	Current firm level performance vis-à-vis the last six months					
	Moderately to Substantially better	84	73	78	68	60
	Same / No change	14	17	21	19	27
	Moderately to Substantially worse	3	10	1	14	12
3b	Expectations regarding firm level performance in the next six months					
	Moderately to Substantially better	79	72	85	69	64
	Same / No change	18	24	15	22	29
	Moderately to Substantially worse	4	4	0	10	7
4	Confidence Indices					
	Current Conditions Index	76.3	71.1	75.2	63.5	62.3
	Expectations Index	74.1	72.2	76.6	64.0	64.4
	Overall Business Confidence Index	74.8	71.9	76.2	63.8	63.7
5	Problem areas					
	Weak Demand					
	Yes	22	23	26	24	34
	No	78	77	74	76	66
	Threat of imports					
	Yes	26	38	35	29	27
	No	74	62	65	71	73

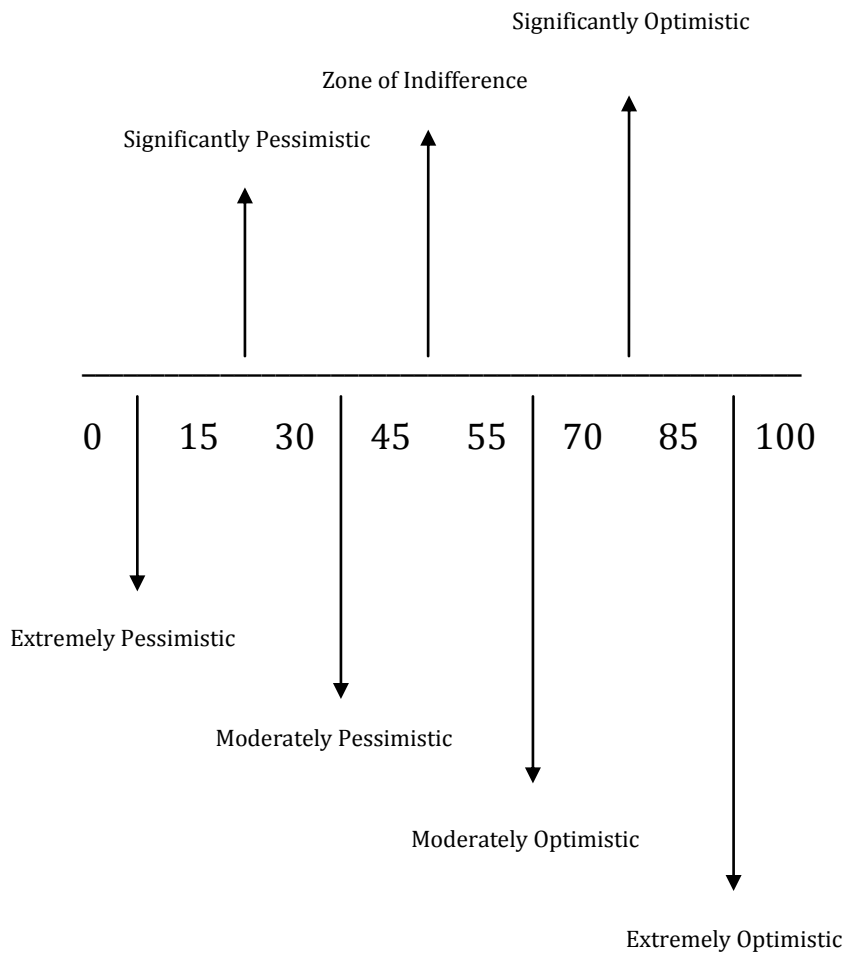
	Constrained availability of credit					
	Yes	19	8	21	17	20
	No	81	92	79	83	80
	High cost of credit					
	Yes	43	39	46	53	55
	No	57	61	54	47	45
	Rising raw material prices					
	Yes	85	77	79	90	85
	No	15	23	21	10	15
6	Present capacity utilization					
	Less than 25%	1	0	1	1	2
	Between 25% and 50%	5	13	11	6	8
	Between 50% and 75%	35	29	27	21	26
	More than 75%	58	57	61	72	64
7	Prospects for the next six months					
	Investments					
	Much higher	5	8	8	9	7
	Higher	36	38	41	45	40
	Same / No change	51	48	47	33	38
	Lower	8	6	4	13	16
	Sales					
	Much higher	6	7	7	7	9
	Higher	62	70	67	62	55
	Same / No change	27	19	26	27	28
	Lower	5	4	0	4	9
	Selling price					
	Much higher	4	3	0	0	1
	Higher	33	20	26	53	33
	Same / No change	58	65	71	46	54
	Lower	5	12	4	1	12
	Profit					
	Much higher	1	6	0	2	0
	Higher	44	33	48	33	30
	Same / No change	36	49	46	42	46
	Lower	19	12	6	23	24
	Exports					
	Much higher	3	2	4	2	1
	Higher	36	42	47	46	39
	Same / No change	44	45	43	37	40
	Lower	17	12	6	16	20
	Employment					
	Much higher	0	1	2	0	1
	Higher	29	34	29	41	25
	Same / No change	67	64	67	52	66
	Lower	4	1	1	7	7

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