



# **FICCI's Business Confidence Survey Q3, 2010-11**

February 2011

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



# FICCI's Business Confidence Survey

## Q3 2010-11

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### Survey Highlights

#### **India Inc's confidence dips ahead of the budget...**

- ✚ Corporate India's business confidence has seen a dip ahead of Union Budget 2011-12. A considerable moderation is seen in the views of members of India Inc with regard to the overall economic and industrial situation in the country.

#### **Input cost inflation is hitting industry hard...**

- ✚ Input cost inflation is hitting Indian industry in a brutal manner. Close to 90 percent of the firms that participated in FICCI's latest Business Confidence Survey have highlighted rising cost of raw materials and industrial inputs as a 'negative factor' impeding their business performance.

#### **Build up in food prices could spill over to manufacturing sector...**

- ✚ Additionally, the build up seen in food prices for long is now threatening to spill over to the manufacturing sector. 93 percent of the surveyed firms concur with this view. Companies are increasingly facing demands for higher wages and salaries and this is complicating their cost structure further.
- ✚ In fact, nearly 70 percent of the surveyed firms have pointed rising manpower costs as a factor adversely affecting their business. This high proportion makes rising wage costs the second most important factor hurting members of Indian industry.

#### **With profits under pressure...Industry is set to increase prices...**

- ✚ A fall out of the rising raw material prices and increasing manpower costs is the compression in profit levels. In the present survey, every 1 out of 4 firms [nearly 25 percent] has reported that its profit level would be lower in the coming six months.
- ✚ Further, having stretched themselves to the extent possible, companies now are in no mood to hold the price line any further. Nearly 53 percent of the firms that participated in the present survey have said that they are going to increase selling price in the coming six months. This marks a huge jump from the figure obtained in the previous survey where 26 percent of the firms had reported likewise.

#### **While current demand situation appears fine, near term order book position is showing signs of some moderation...**



- ✚ Although majority of the surveyed companies have reported that the demand situation remains firm, some signs of moderation in the near term order book position are emerging. It seems that the successive hikes introduced by RBI in the key monetary variables [seven times since March 2010] have started having a bearing on industry's performance.
- ✚ The evolving high interest rate structure in the economy does not augur well for industrial performance. Nearly 53 percent of the firms have said that high lending rates by banks are having an impact on their operations.

### **Market demand is firm but not at a point that indicates capacity constraints or overheating**

- ✚ Nearly 60 percent of the surveyed companies have opined that while market demand is firm it has not reached a point where they face capacity constraints. This same set of companies feels that Indian economy is not overheating.

### **What industry is looking forward to in Union Budget 2011-12?**

- ✚ The key points mentioned by surveyed companies on their expectations from Union Budget 2011-12 are given below
  - There should be no further rollback of the stimulus measures. Excise rates in particular should not be raised.
  - Budget must clear the direction on introduction of Goods and Services Tax [GST].
  - Benefits given to exporters must continue as the global economy is still not out of the woods.
  - Provide some additional relief to individuals / consumers facing the brunt of inflation.
  - Modulate the taxation structure on oil products to limit increase in fuel prices.
  - Focus on infrastructure development giving adequate emphasis to infrastructure in rural areas.
  - Incentivize states to remove taxes including octroi on interstate movement of agricultural products.
  
  - Amongst sectors
    - Textiles industry is expecting the revival of Technology Up-gradation Fund Scheme (TUFS).
    - IT / Software sector is expecting extension of benefits under STPI scheme.
    - Fertilizer industry is looking for a long term policy framework particularly Nutrient Based Subsidy (NBS) for urea.
    - Banking sector is looking forward to a nod for issuing infrastructure bonds as well as a level playing field for bank fixed deposits vis-à-vis mutual funds' fixed maturity plan in terms of taxation.



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### Survey profile

FICCI's Business Confidence Survey for the third quarter of fiscal 2010-11 drew responses from 296 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 1 crore to Rs. 2, 00, 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, paper, metal and metal products, insurance, hospitality and other business services. The survey was conducted during the months of January and February 2011.

Sector	Percentage of respondents
Heavy Industry	55
Light Industry	36
Services	9



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### Detailed survey findings

**Economy** – Results of FICCI's latest Business Confidence Survey show that there has been a considerable moderation in the views of the survey participants about the overall economic situation of the country. That this is happening at a time when the growth rate for 2009-10 has been revised upwards from 7.4 percent to 8.0 percent and the advance estimate for 2010-11 has pegged growth at a robust 8.6 percent should be a matter of concern.

A possible reason why India Inc is becoming wary again about the overall economic situation is the persistent rise in prices particularly the continuous long bout of food inflation and the action this has drawn from the RBI. With the central bank of country raising interest rates seven times since March 2010, we are moving towards a high interest rate structure, which could impinge upon the overall economic activity in the country in the months ahead.

In the present survey, 57 percent of the participants said that the current overall economic situation is 'moderately to substantially better' vis-à-vis last six months. In the previous survey the corresponding figure was much higher at 82 percent. Further, while 24 percent of the respondents said that current economic situation has deteriorated vis-à-vis last six months, the remaining 19 percent indicated no change in economic situation over the last six months.

The feedback received from companies on their expectations about overall economic situation in the coming six months also reflects considerable moderation in views. In the present survey, about 50 percent of the participants said that they foresee an improvement in the economic situation over the next two quarters. This marks a sharp decline of about 33 percentage points from the results obtained in the previous survey where 83 percent of respondents had reported likewise. Further, while 38 percent of the participating companies feel that there will be no change in the economic situation in near term, the remaining 12 percent foresee a weakening of the economic situation.

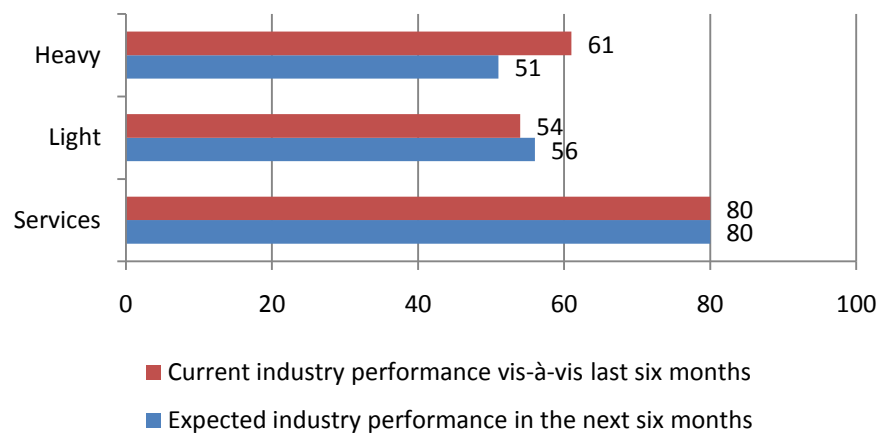
**Industry** – Results pertaining to performance at the industry level also indicate a weakening trend. It may be noted that in the last two months for which data is available [November and December 2010], industrial production numbers have shown a compression with growth plummeting to low single digit levels. The general index of industrial production registered a growth of 3.6 percent and a mere 1.6 percent in November and December 2010 respectively.

In the present survey, 57 percent of the participants said that their current industry performance is 'moderately to substantially better' vis-à-vis last six months. In the previous survey this figure stood at 77 percent. Further, while 22 percent of the respondents reported deterioration in their industry's performance compared to last six months, an equal proportion said that there has been no change in their own industry's performance over the same time period.



The feedback received from companies on the likely performance of their own industry in the coming six months is also marked by shades of moderation. In the present survey, nearly 54 percent of the participants said that they are hopeful of a ‘moderately to substantially better’ performance of their own industry in the coming six months. In the previous survey this figure stood at a robust 80 percent. Further, while 32 percent of the participants anticipate no change in industrial performance in the coming six months, the remaining 14 percent expect their own industry performance to weaken.

**Industry performance – Segment wise**  
**Proportion of respondents in ‘moderately to substantially better’ bracket**



With regard to performance at the sectoral level, we find that members of the services sector are more optimistic as compared to survey participants belonging to the light and heavy industry segments. As the above chart shows, nearly 80 percent of the companies belonging to the services sector have reported that their current performance is ‘moderately to substantially better’ vis-à-vis the last six months. In case of the heavy industry this figure stands at 61 percent and for light industry at 54 percent.

Moving on to expectations about the near term performance, we again see that members from the services sector are more upbeat with every 4 out of 5 companies from this sector expecting an improvement in performance in the coming six months. However, this proportion drops to 56 percent in case of light industry and further to just about 50 percent in case of heavy industry.

**Firm** – At the firm level, nearly 68 percent of the participating companies reported that their performance has improved over the last six months. In the previous survey, this figure stood at 78 percent. Further, while 19 percent of the firms reported no change in their own performance over the last two quarters, another 14 percent said that their own performance has weakened over the last six months.

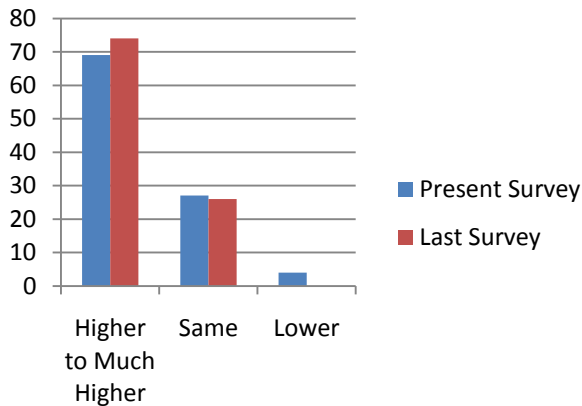
With regard to performance in the coming six months, nearly 69 percent of the survey participants have indicated that they expect their firm’s performance to improve. In the previous survey, a much higher 85 percent of the firms had responded likewise. Further, while



22 percent of the respondents said that they foresee no change in their performance in the coming six months, the remaining 10 percent cited worsening of firm level performance.

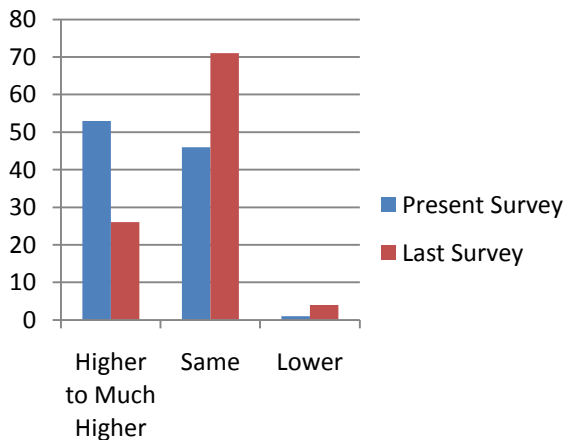
### Prospects for the next six months

#### Sales



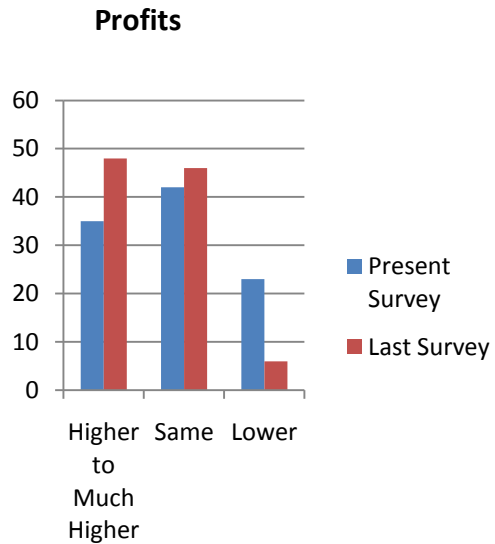
About 69 percent of the participating firms in the current survey have said that they foresee an increase in their company sales in the coming six months. This figure is marginally lower when compared to the results obtained in the previous survey where 74 percent of the firms had reported likewise. Further, while 27 percent of the respondents said they expect sales to remain same in the coming six months, the remaining 4 percent cited a decline in sales performance. Among the three sectors, firms belonging to the services sector were most optimistic about sales prospects.

#### Selling Price

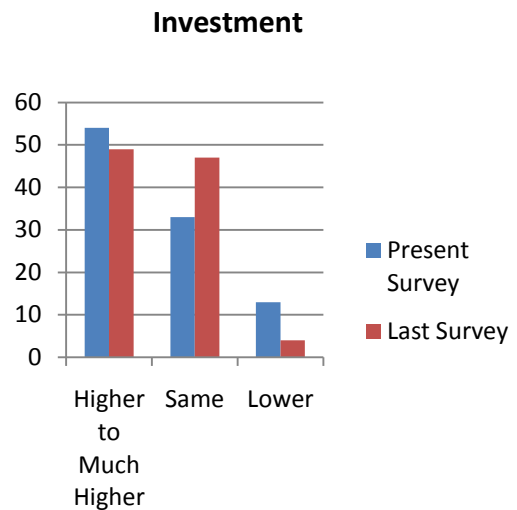


In the present survey a huge increase is seen in the proportion of firms that expect selling price to increase in the coming six months. While in our previous survey, 26 percent of the firms had pointed towards increasing selling price, this proportion has doubled to 53 percent in the current survey. Further, respondents citing no change in the selling price has come down from a majority 71 percent in the previous survey to 46 percent in the present round.

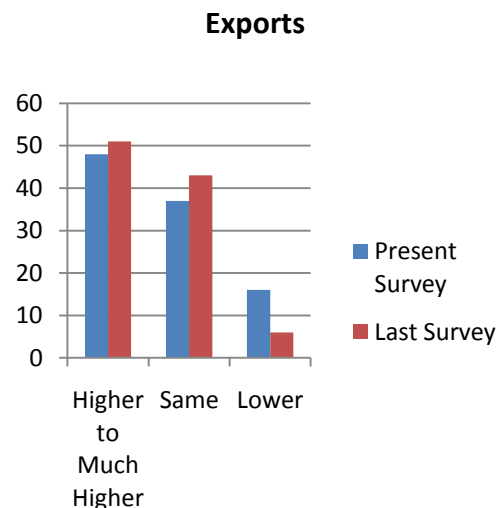
Around 35 percent of the respondents in the present survey said that they expect their profits to go up in the near term. This figure is about 13 percentage points lower than the proportion of participants [48] who had reported likewise in the previous survey. Further, nearly 23 percent of the firms have said that they expect their profit levels to go down in the coming six months. In our previous survey this figure was just about 6 percent.



In the present survey, 54 percent of the companies indicated that they propose to increase their investments over the next two quarters. In the last survey, the same figure stood at 49 percent. Further, while 13 percent of the participating companies cited lower investments in near future, the remaining 33 percent said that they would hold on to current investment levels. Among the three sectors those belonging to the services segment were most positive about undertaking new investments followed by heavy and light industry sectors.

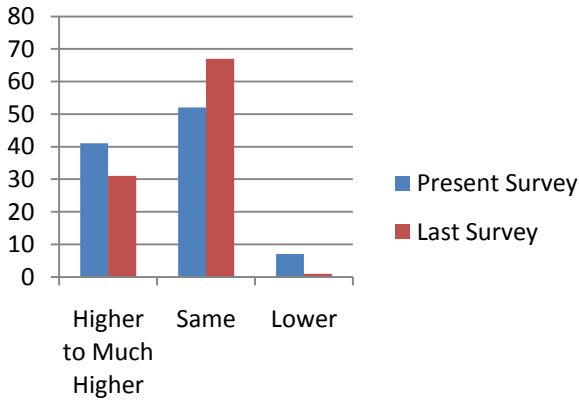


The proportion of firms expecting export levels to go up in the coming six months stands at 48 percent in the present survey. This is only marginally lower when compared to the 51 percent figure obtained in our previous survey. Further, the proportion of respondents expecting a decline in exports has increased by 10 percentage points between our last and current survey. In the previous round of FICCI BCS only 6 percent of the firms reported that their exports are likely to go down in the coming six months. In the present survey this figure has moved up to 16 percent.





## Employment



Survey results indicate an improvement in the outlook with regard to jobs / employment. About 41 percent of the respondents said that they intend to increase their workforce over the next two quarters. In the last survey, 31 percent of the companies had said likewise. Further, while 52 percent of the companies expect no change in the hiring situation, the remaining 7 percent said that they foresee a decline.

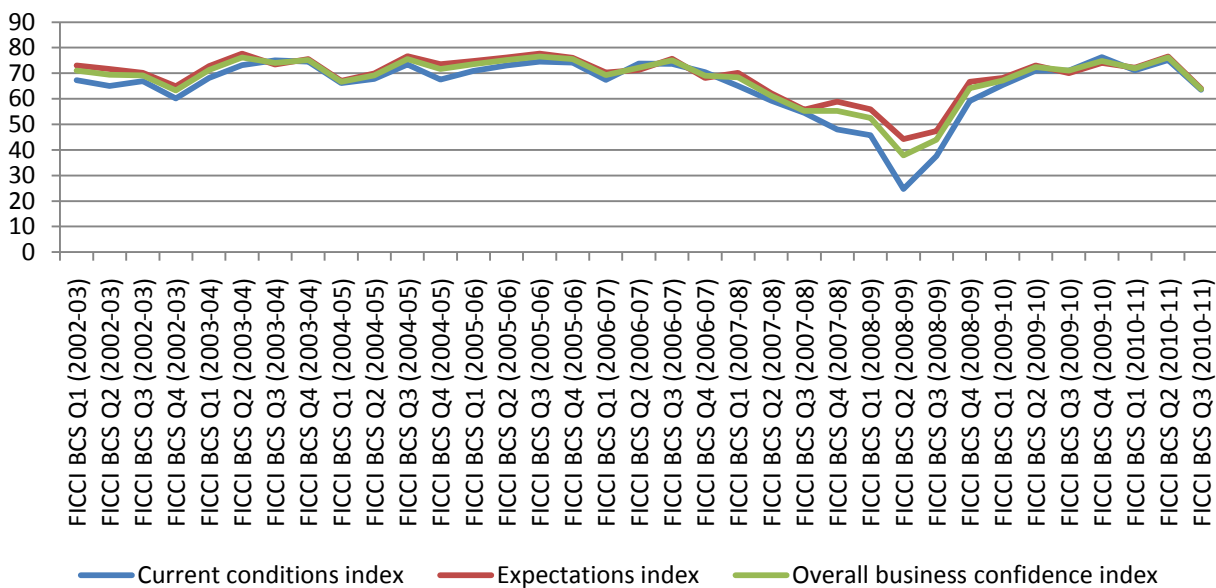
## Forecast for the next six months

(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	5	26	35	21	11	1
Profits	21	44	23	6	4	1
Exports	17	37	24	14	5	3

## Confidence Indices

### Confidence Indices





Results of present survey indicate that there has been a considerable moderation in the views of the respondents about the overall economic situation as well as own industry situation. Participating companies have also been found to be somewhat less upbeat about their own firm's performance. Further, these trends are reflected not only in the assessment made by firms about the current situation vis-à-vis the last six months but also in their outlook / expectations for performance in the next six months. As a result, all the three confidence indices computed by FICCI have seen a decline in their value in the present round of Business Confidence Survey.

- ✚ The Current Conditions Index has seen a dip in its value from 75.2 in the previous survey to 63.5 in the present survey.
- ✚ The Expectations Index has come down from 76.6 in the previous survey to 64.0 in the present round.
- ✚ The Overall Business Confidence Index has seen a drop in its value from 76.2 in the previous round to 63.8 in the current survey.

After registering a fall in value between the last and the present survey, all the three confidence indices now lie in the 'moderately optimistic' zone.

### 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
	Q3	Q4	Q1	Q2	Q3
	2009-10	2009-10	2010-11	2010-11	2010-11
Weak demand	37	22	23	26	24
Threat of imports	29	26	38	35	29
Constrained availability of credit	15	19	8	21	17
High cost of credit	33	43	39	46	53
Infrastructure	38	39	35	42	35
Rising cost of raw materials	77	85	77	79	90
Rising manpower costs	66	72	65	59	70

A look at the responses received to the question pertaining to factors adversely affecting business performance of companies shows that pressure on account of rising cost of raw materials and industrial inputs has further intensified.

In fact in the present survey, the proportion of participants that have pointed out rising input prices as a key impediment to their overall performance stands at a high 90 percent. This high figure makes continuous increase in raw material prices stand out as the key constraining factor for members of corporate India today. Due to this the profit margins of companies across sectors are under pressure.



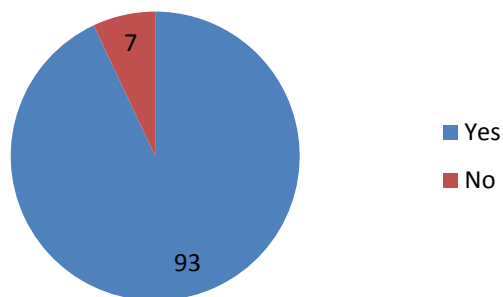
Another factor that seems to be worrying companies at this moment is the rise in wage cost. As the table above shows, in the present survey again we see a high 70 percent of the companies that have reported rising manpower costs as a constraining factor to their business.

Several companies have pointed out that there is pressure on them to revise upwards wages / salaries of employees as food inflation has been stubbornly high for a long time. As companies respond to this situation through salary revisions, their cost structure gets further complicated.

Given the buildup in raw material prices, which are now closely related to movement in international commodity prices, and the increase food prices, inflation continues to remain a grave risk in the economy.

FICCI asked the surveyed companies whether they feel that the increase in food prices could spill over to the manufacturing sector. A whopping 93 percent of the firms confirmed that they foresee the increase in food prices to spill over to the manufacturing sector via demand for higher wages and salaries.

#### **Can the build-up in food prices spill over to the manufacturing sector?**



Besides rising cost of raw materials and rising manpower costs, high cost of credit is also seen as having a negative bearing on the performance of companies with almost 53 percent of the firms reporting that rising lending rates are also impacting their overall business performance. The central bank of the country – RBI – in its bid to rein in inflationary pressures has upped the key policy rates seven times since March 2010. This continuous tightening of the monetary policy has led to an upward shift in the interest rate structure with banks now charging a higher rate of interest for lending to corporates.

Finally, when we look at the responses received on how the current demand situation has been evaluated by the companies, we find that there has been not much change in the proportion of firms citing weak demand as a constraining factor over our last three surveys. This figure has stayed close to the 25 percent mark in the FICCI Business Confidence Surveys for Q1, Q2 and Q3 of 2010-11.

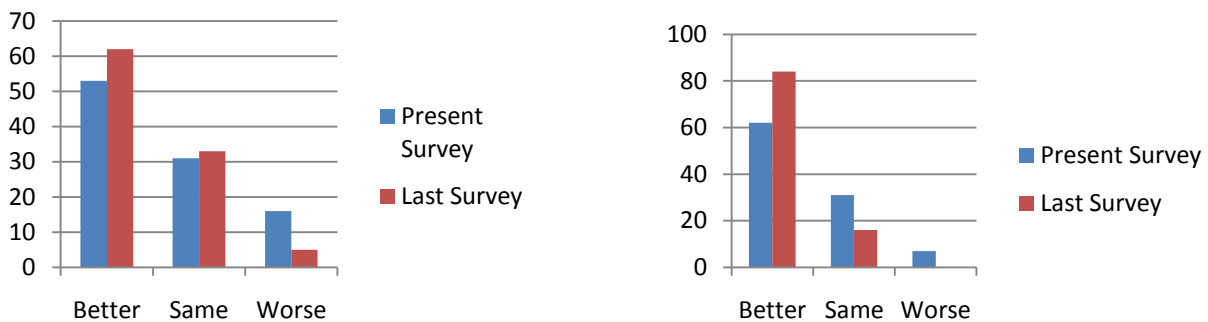


While these results indicate that for majority of the surveyed companies the demand situation remains firm, results for the question pertaining to order book position of companies indicate that some moderation in demand can be expected going ahead.

As the chart below shows, in the present survey nearly 62 percent of the firms have reported that they expect an improvement in their order book position in the next six months. Although this is a fairly high figure, yet it marks a decline from 84 percent of the respondents who had reported likewise in the previous survey.

Demand situation for industry therefore becomes an important variable that should be closely watched in the months ahead.

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





# FICCI's Business Confidence Survey Q3 2010-11

## Survey at a glance

		FICCI BCS Q2 2009-10	FICCI BCS Q3 2009-10	FICCI BCS Q4 2009-10	FICCI BCS Q1 2010-11	FICCI BCS Q2 2010-11	FICCI BCS Q3 2010-11
1a	<b>Current overall economic conditions vis-à-vis the last six months</b>						
	Moderately to Substantially better	79	83	87	78	82	57
	Same / No change	19	13	11	16	16	19
	Moderately to Substantially worse	2	4	1	7	2	24
1b	<b>Expectations for overall economic conditions for the next six months</b>						
	Moderately to Substantially better	82	77	82	72	83	50
	Same / No change	17	17	18	24	16	38
	Moderately to Substantially worse	1	6	0	4	1	12
2a	<b>Current industry performance vis-à-vis the last six months</b>						
	Moderately to Substantially better	69	75	87	71	77	57
	Same / No change	27	17	9	20	20	22
	Moderately to Substantially worse	5	8	4	9	4	22
2b	<b>Expectations for industry performance in the next six months</b>						
	Moderately to Substantially better	77	67	82	68	80	54
	Same / No change	20	23	15	23	20	32
	Moderately to Substantially worse	3	10	3	9	0	14
3a	<b>Current firm level performance vis-à-vis the last six months</b>						
	Moderately to Substantially better	74	71	84	73	78	68
	Same / No change	24	21	14	17	21	19
	Moderately to Substantially worse	1	8	3	10	1	14
3b	<b>Expectations regarding firm level performance in the next six months</b>						
	Moderately to Substantially better	79	73	79	72	85	69
	Same / No change	19	21	18	24	15	22
	Moderately to Substantially worse	2	6	4	4	0	10
4	<b>Confidence Indices</b>						
	Current Conditions Index	71.0	71.0	76.3	71.1	75.2	63.5
	Expectations Index	73.1	70.0	74.1	72.2	76.6	64.0
	Overall Business Confidence Index	72.4	70.0	74.8	71.9	76.2	63.8
5	<b>Problem areas</b>						
	<b>Weak Demand</b>						
	Yes	62	37	22	23	26	24
	No	38	63	78	77	74	76
	<b>Threat of imports</b>						
	Yes	34	29	26	38	35	29
	No	66	71	74	62	65	71
	<b>Constrained availability of credit</b>						

	Yes	20	15	19	8	21	17
	No	80	85	81	92	79	83
	<b>High cost of credit</b>						
	Yes	37	33	43	39	46	53
	No	63	67	57	61	54	47
	<b>Rising raw material prices</b>						
	Yes	52	77	85	77	79	90
	No	48	23	15	23	21	10
6	<b>Present capacity utilization</b>						
	Less than 25%	1	3	1	0	1	1
	Between 25% and 50%	16	8	5	13	11	6
	Between 50% and 75%	30	28	35	29	27	21
	More than 75%	53	60	58	57	61	72
7	<b>Prospects for the next six months</b>						
	<b>Investments</b>						
	Much higher	5	2	5	8	8	9
	Higher	35	35	36	38	41	45
	Same / No change	48	53	51	48	47	33
	Lower	12	11	8	6	4	13
	<b>Sales</b>						
	Much higher	2	6	6	7	7	7
	Higher	63	66	62	70	67	62
	Same / No change	35	22	27	19	26	27
	Lower	0	5	5	4	0	4
	<b>Selling price</b>						
	Much higher	1	2	4	3	0	0
	Higher	20	16	33	20	26	53
	Same / No change	63	62	58	65	71	46
	Lower	15	20	5	12	4	1
	<b>Profit</b>						
	Much higher	1	1	1	6	0	2
	Higher	30	36	44	33	48	33
	Same / No change	56	46	36	49	46	42
	Lower	13	17	19	12	6	23
	<b>Exports</b>						
	Much higher	0	1	3	2	4	2
	Higher	35	38	36	42	47	46
	Same / No change	43	46	44	45	43	37
	Lower	22	15	17	12	6	16
	<b>Employment</b>						
	Much higher	1	2	0	1	2	0
	Higher	15	28	29	34	29	41
	Same / No change	75	66	67	64	67	52
	Lower	8	4	4	1	1	7

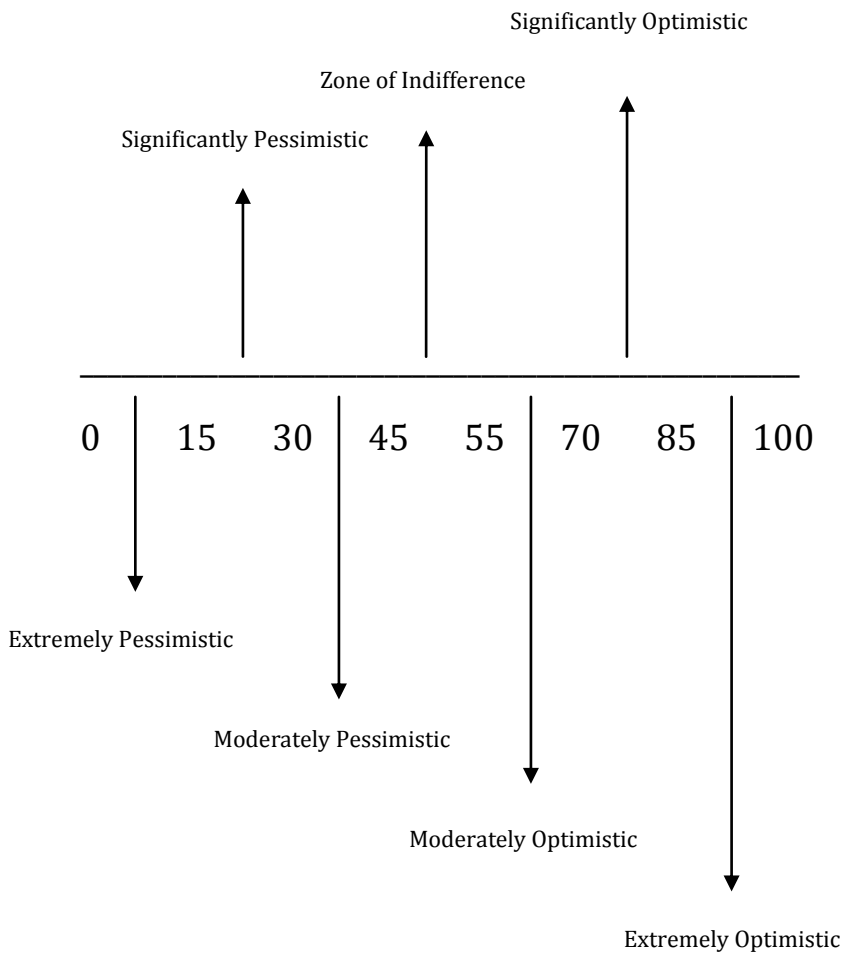


# Annexure 1

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

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### Sectoral Classification

<b>Heavy Industry</b>	<b>Light Industry</b>	<b>Services</b>
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