

RISING INPUT COSTS & RUPEE APPRECIATION STILL MAJOR CONCERNS FOR EXPORTERS ALTHOUGH 60% SEE IMPROVEMENT IN ORDER BOOK POSITION: FICCI SURVEY

NEW DELHI, October 23, 2010. The positive swing in the confidence of exporters despite global uncertainties would be strengthened further if there is a let up in the rising cost of raw materials and the appreciation of the rupee against the dollar, **says the latest FICCI Export Survey.**

The FICCI Survey reveals that although the Chinese Yuan has gained almost 3 per cent vis-à-vis the US\$ in recent months this would have no impact on Indian exports as the price advantage in favor of Chinese products is of a much greater magnitude. For a more meaningful impact, the Chinese Yuan should appreciate by a significant amount according to an overwhelming majority of survey respondents.

The FICCI Survey, conducted during September and October 2010, saw the participation from 254 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in the survey ranged from Rs. 50 lakh to Rs. 22,000 crore and the companies represent sectors like automotive, food and food processing, marine products, gems and jewellery, handicrafts, FMCG, textiles, metal and metal products, heavy engineering, cement, paper, pharmaceuticals & chemicals, wood & wood products and IT software.

Although exporters continue to remain on guard due to the heightened level of competition in the international market, the Survey findings show signs of improvement with exporters feeling more confident about export conditions. Respondents say that the buying activity in the international market has picked up in recent times. The payment conditions have also been reported to have improved.

The mood is reflected by the fact that:

- Importers of gems and jewellery, handicrafts and textiles in US and EU are stocking up in the expectation of better demand in their home markets in light of the upcoming festive season.
- Shipments of metal products are also encouraging given the pickup in economic activity in certain areas of Europe.
- Seafood exports are also gathering pace in the North American region.
- House ware and furniture exports are seeing an increase in the markets of Africa and Middle East.

In terms of current condition, nearly 64 per cent of the participating firms feel that overall export conditions are much better as compared to the situation six months back. Almost the same proportion of participants have said that current industry level export conditions are much better vis-à-vis the last six months. In terms of export conditions at

the firm level, the Survey reveals that nearly 70 per cent of the exporters feel that current conditions are better as compared to the situation six months back.

The Survey participants' expectations regarding export conditions in the coming six months are even more encouraging with every three out of four respondents saying that they expect overall and industry level export conditions to improve in the coming six months. At the firm level, this figure is even higher and stands at 82 per cent.

Nearly 60 per cent of the participants have said that their current order book position is better compared to the order book position six months back. In the previous survey 53 per cent of the respondents had reported likewise. This is an indication of the improving demand conditions in the international markets and is contributing to the improvement seen in the overall confidence level of exporters from India.

What is perhaps even more important is the improvement seen in the proportion of exporters expecting an improvement in their order book position in the coming six months. The figure for this indicator has moved up from 58 per cent in the last survey to about 67 per cent in the present survey. This near 10 percentage point increase is an important indicator and shows that there could be an improvement in overall export volumes in the months ahead.

The following are the highlights of the FICCI Survey on Exports:

Indian exporters becoming more aggressive...

The improvement in the market conditions is leading exporters to become more aggressive in their sale strategies. Companies are:

- Preparing plans for aggressive marketing by promoting products through advertisements in electronic media.
- Looking out for appointing new distributors as well as strengthening ties and maintaining good relations with existing distributors.
- Building stock points in their destination markets for smoother 'stock and sell' arrangements near to their customers.

Rising raw material prices continue to exert pressure...

Rising raw material prices is the most important factor affecting exporters with nearly 4 out of 5 exporters saying that rising cost of inputs and raw material is hurting them badly. A case in point is the textile industry where cotton prices have been increasing at fairly regular intervals and are causing a lot of anxiety amongst textile and apparel exporters.

Exchange rate woes persist...

Although volatility in the value of the Rupee vis-à-vis the US\$ has reduced since the time of our last survey, yet, in recent days we have seen that the Rupee has again

appreciated against the US\$ and to that extent it is leading to erosion of margins for the Indian exporters.

While exporters struggle to manage the high and rising input costs, at times resorting to increase in prices, the adverse movement in the value of the Rupee blunts the effectiveness of these efforts leaving the exporters in the same position from where they started – one of compressed margins and profitability.

Chinese Yuan appreciation matters little at this stage...

Although the Chinese Yuan has gained almost 3 percent vis-à-vis the US\$ in recent months this will have no impact on Indian exports as the price advantage in favor of Chinese products is of a much greater magnitude. For a more meaningful impact, the Chinese Yuan should appreciate by a significant amount according to an overwhelming majority of survey respondents.

Given the intense competition, focus will have to be on economizing costs...

It is seen that many local players in the target markets are also cutting their costs and thereby intensifying competition for exporters from other countries including India.

Exporters are trying hard to economize their costs and are taking steps like:

- Commissioning energy audit to rationalize energy consumption.
- Signing long term contract with transporters to save on fuel cost escalation.
- Looking for alternative raw material sources offering better prices.

Move over to 'base rate' mechanism ends flexibility to negotiate...

Exporters fear that going ahead interest rates can become a major stumbling block especially since the 'base rate' mechanism has taken away the flexibility to negotiate with banks for concessional interest rates.

Although, the move over to the base rate system has not affected exporters much there is an apprehension that with the interest rate cycle moving upwards, tightening of interest rates would happen in the next few months. And as this happens, exporters will have to take steps to manage this additional cost.

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