FICCI Survey on Global Economic Meltdown and its impact on Indian Industry

Background

It is now certain that the world economy is headed for a protracted slowdown. The Indian economy is doing no better, with growth rate in the second quarter of current fiscal dipping below 7%.

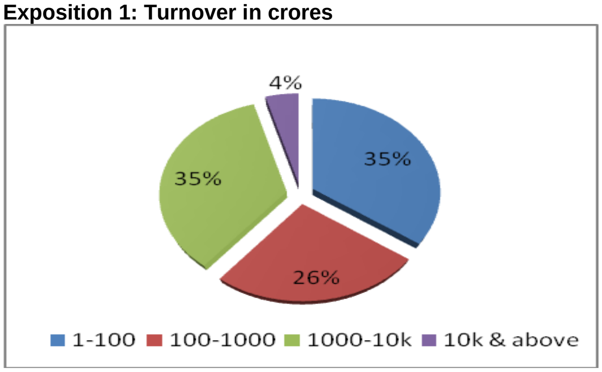
Against this background, this survey by FICCI explores the impact of the global economic meltdown on Indian corporates.

Survey Profile

For the purpose of this survey, a short questionnaire was circulated among member associations of FICCI and amongst individual companies during the months of September and October 2011. The survey drew responses from different sectors.

With regard to the sectoral spread, responses were received from a wide array of sectors ranging from heavy engineering to textiles. Some other responses that were received were from tea manufacturing, cotton and synthetic yarn manufacturing, cement and automobile tyres, manufacturing cables, vaccines, chemicals, pumps and valves etc.

Exposition 1: Turnover in crores



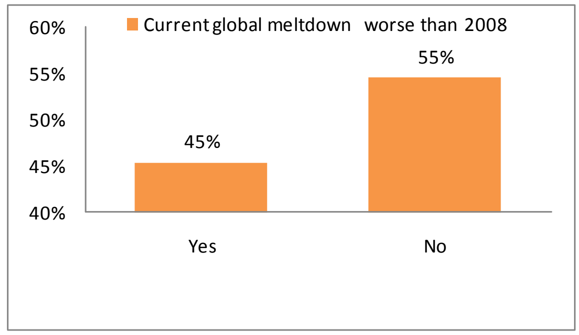
Source: FICCI Survey

Survey Findings

Increasing apprehension of a full-scale global meltdown…

A majority of the respondents felt that the current liquidity situation is not as bad as that 2008. However, what is disconcerting is that this %age was just above at 50%, Clearly, there is an increasing perception that the current global meltdown might snowball into a full blown crisis in 2012.

Exposition 2: Is current global meltdown worse than 2008

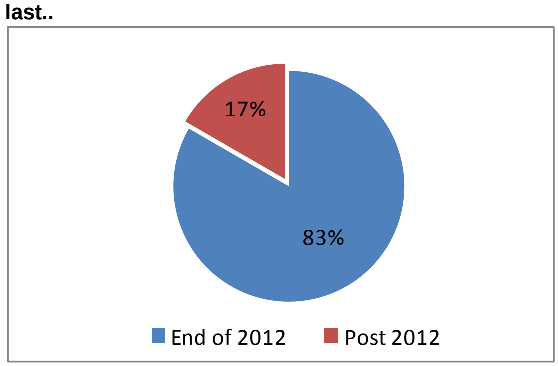


Source: FICCI Survey

..Expected to last at least till end of 2012

However, what is more worrying is that an overwhelming majority of the respondents at 83% felt the current global economic meltdown will last at least till end of 2012. Interestingly, a small %age of people felt that the current crisis is far deep-rooted and may last well into the next couple of years, possibly till 2014.

Exposition 3: Current global meltdown expected to last..

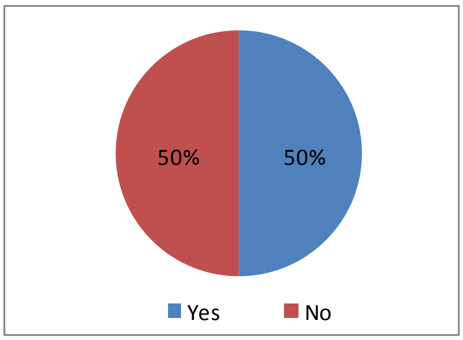


Source: FICCI Survey

…Leading to conserving cash for the next six months

The uncertain economic outlook has also resulted in Indian corporates (50% of the respondents) holding on to higher cash balances. An increase in cash balances typically implies that corporates are holding on to their investment plans for better future opportunities. Alternatively, when credit is scarce, or expected to be scarce firms hold on to more cash to meet any potential eventualities. Interestingly, nearly 82% of the 50% respondents were large corporates. This trend is akin to FY2003, when also the economic outlook was uncertain aftermath the 2000 dotcom bust and the WTC attack. Within the sample, sectors like metals, cement, food & beverages, reported the maximum increase in cash balances. It is also possible that monetary tightening cycle that started in Mar'10 has resulted in sectors like construction beginning to feel the pinch.

Exposition 4: %age of respondents conserving cash for the next 6 months in affirmative

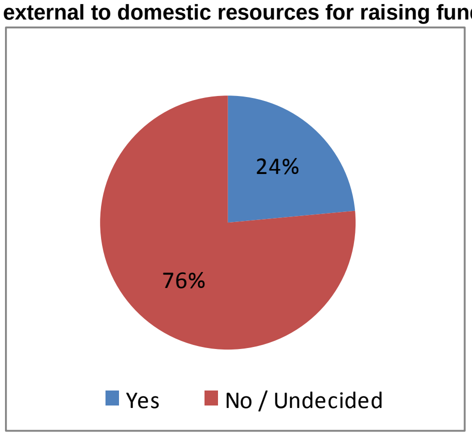


Source: FICCI Survey

…And some diversion from external to domestic sources for raising funds

Apart from conserving cash, a quarter of the respondents has shifted / contemplating a shift to domestic market because of increasing risk. Thus, even the 17.5% growth in non-food credit currently may be an exaggeration.

Exposition 5: %age of respondents shifting from external to domestic resources for raising funds

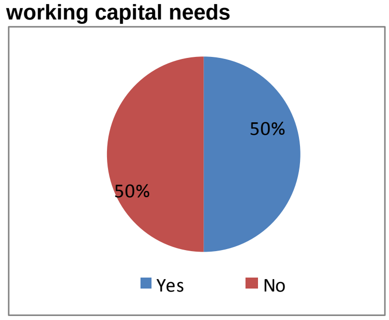


Source: FICCI Survey

... Corporates are now using funds more for working capital needs

Reflecting the uncertain global environment, coupled with a deteriorating domestic environment, a half of the corporates are using incremental funds purely for working capital purposes.

Exposition 5: %age of corporate using funds for working capital needs



Source: FICCI Survey

In fact, looking at the percentile distribution of funds companies are allocating towards working capital (*refer Table 1*), there has been an increase even to the extent of 50% for 20% of the companies in the sample. On an average, the increase in funds for working capital needs has been 25%. **If we strip this 25% off from non-food credit growth for the current fiscal, there has been actually a decline in non-food credit growth purely for non working capital needs!**

Table 1: Increase in proportion of funds allocated towards working capital

Till 20%	60%
21-49%	20%
50% & above	20%

Source: FICCI Research

Dealing with the situation…

As part of the survey, the participating companies were also asked to indicate what measures they are taking to deal with the problem of slowdown. Towards this end, survey respondents made the following suggestions

* Increased government spending so as to boost the non-food credit growth
* An end to the monetary tightening
* Better infrastructural facilities at the ports, specially Chennai, Tuticorin and Cochin