



**Business Confidence Survey
January 2022**

Business Confidence Survey

Summary

Overall Business Confidence slips to 63.9 in the latest survey round

A steep rise in the number of fresh covid-19 infections has dented confidence levels of corporate India

Rising raw material prices and persistent weak demand conditions remain major impediments

- The latest round of FICCI's Business Confidence Survey revealed deterioration in the optimism level of corporate India. **The Overall Business Confidence Index stood at 63.9 in the current round as compared to 75.7 in the previous survey round.** Significantly worse current conditions as well as decline in optimism about the near-term prospects on the back of fresh surge in COVID-19 infections has led to a dip in overall confidence levels.
- While the economy was witnessing nascent signs of recovery after the devastating second wave last year, the current surge in cases has once again increased uncertainty around the pandemic and its impact. This has once again dampened consumer sentiments which is also corroborated in our latest survey findings. **The proportion of respondents citing weak demand situation as a constraining factor stood at 60% in the latest survey round as compared to about 50% stating the same in the previous round.**
- The increased pessimism amongst industry members is also corroborated by a dip in the near-term outlook on some of the major operational parameters such as sales prospects, selling price, profits and production.
- **The proportion of respondents anticipating better sales prospects in the near term stood at 50% in the current survey round. This is much lower than 65% respondents stating the same in the previous round.** This may be attributed to a decline in sales momentum expected post festive season along with prevailing weak demand conditions.
- **Lower sales prospects and limited pricing power capacity amidst surging production costs on the back of increased raw material prices has dampened the outlook on profits for the next two quarters.** The percentage of participants citing higher profits over next six months declined to 30% in the latest survey from 34% respondents stating likewise in the previous round.
- In addition, given the current economic environment, increasing raw material costs emerged as a major constraining factor for companies for the seventh consecutive survey round. About **82% of the participating companies stated higher raw material costs as a major impediment for their businesses in the present survey.** This was higher than 80% participants stating likewise in the previous round.

Overall Business Confidence Index noted a significant decline and stood at 63.9 in the current survey round

Demand conditions remain a concern

Outlook on major operational parameters including sales, profits, employment and exports indicates mixed recovery

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Summary

- **Around 34% respondents were optimistic about better hiring prospects** over the next two quarters (as compared to 29% stating the same in the previous round). On the external front, **36% respondents indicated that they anticipate higher outbounds shipments over the next two quarters**. The corresponding number in the previous round was a bit lower at 35%.

The respondents were asked to share their views on the top trends that will govern global and domestic economy in 2022. Additionally, they were also asked to share the opportunities they are likely to witness in during the year. Suggestions of participants were also sought on expectations from the Union Budget 2022-23.

Global and Domestic Trends in 2022

- With the global economy facing a fresh wave of the pandemic led by Omicron variant, risk from new covid-19 strains was touted as the topmost development to watch out for in the year 2022.
- This was followed by persistent increase in global commodity prices and sustained geo-political tensions across the world.
- On the domestic front, participating companies cited inflation risks along with future possibilities of the fresh wave of covid-19 pandemic as the topmost trend that they will look out for in 2022.
- Moreover, with India undergoing the third wave of the coronavirus pandemic, consumer sentiments have once again been badly hit. Growing uncertainty about future income and health expenses is going to have a bearing on the economy.
- Respondents to the survey were near unanimous in listing out rising raw material costs and high commodity prices as a key challenge in 2022.
- Inadequate availability of crucial raw material has emerged as another major concern area.
- Persistent weak demand conditions is delaying the much-needed private investment cycle push.

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Summary

Opportunities

- Participating companies listed out a plethora of opportunities they foresee in 2022 despite the pandemic blues.
- While a majority of the adult population has been fully vaccinated, opening up of booster shots and vaccination of children between 15-17 years of age is very encouraging.
- Participants of the survey also indicated increasing investments in upgrading their business operations both in terms of technology as well as scalability.
- The government is in talks for signing free/ preferential trade agreements with a host of countries. The respondents pointed out that timely preparation for the new opportunities would help them capture better deals in external markets especially when global value chains are diversifying.
- Moreover, a fresh wave of entrepreneurship and startup culture along with renewed focus on Make in India is likely to further stimulate the economy.

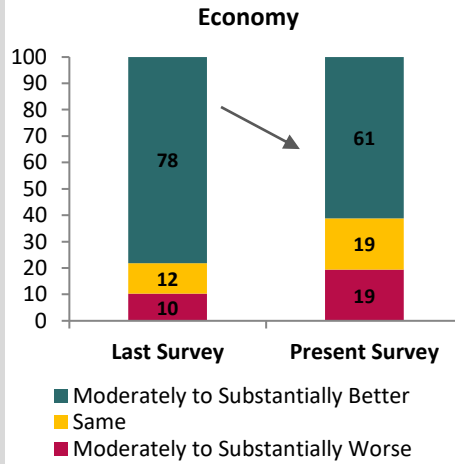
Key Expectations from Union Budget 2022-23

- Reduction in personal income tax rate; Increase in standard deduction
- Simplify GST rates & norms
- Reduction in taxes on fuel
- Reduction in capital costs for MSMEs
- Focus on building healthcare infrastructure
- Focus on creation of digital infrastructure
- Reduction in collateral for working capital loans
- Rationalization & increase in scope of RoDTEP
- Address inflation concerns through supply management & other measures

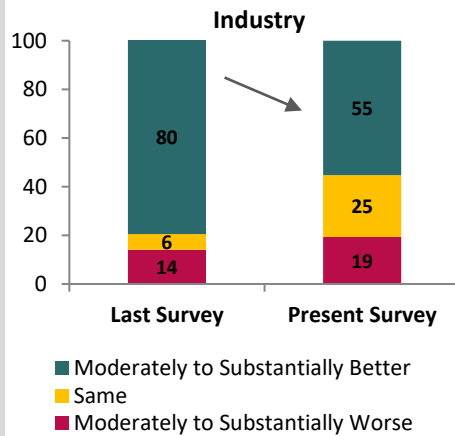
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With a sharp surge in covid-19 cases once again, the assessment of respondents regarding overall current conditions turned a tad pessimistic in the current survey round...

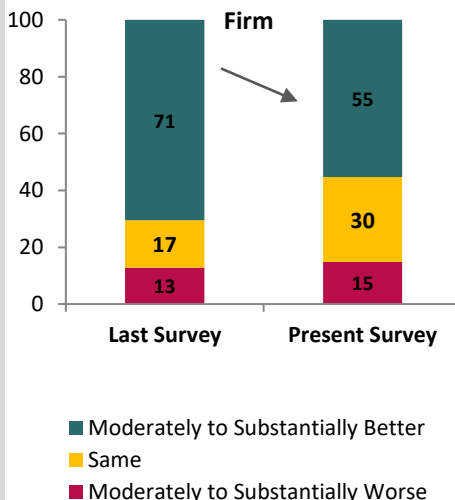
Current conditions vis-à-vis last six months



FICCI's latest Business Confidence Survey reveals significant deterioration in the proportion of respondents reporting better overall current conditions relative to last six months. Steep rise in the number of covid-19 infections indicating the onset of the third wave of the pandemic has had an impact on the optimism levels of Corporate India.



Consequently, a much lower proportion of participants reported an improvement in current conditions (vis-à-vis the previous round) at all three levels- economy, industry as well as at the firm level.



In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially better' relative to previous six months declined to 61% vis-à-vis 78% respondents stating likewise in the previous round.

At the industry level, about 55% respondents reported 'moderately to substantially better' current conditions vis-à-vis last six months which was much lower than 80% participants reporting the same in the previous round.

At the firm level too, only 55% of the respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months. Around 71% of the participating companies had reported likewise in the previous survey round.

An increase was noted in the proportion of respondents citing no change in the current conditions vis-à-vis last six months.

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Expected conditions over next six months

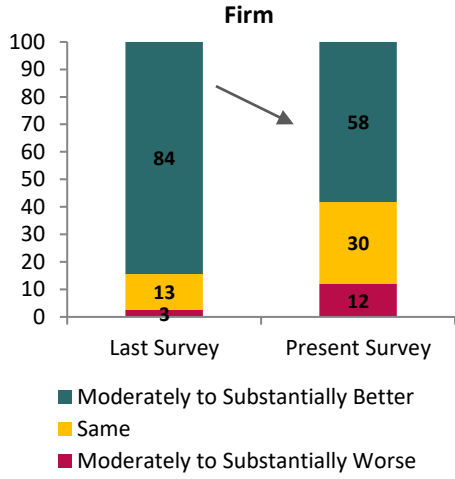
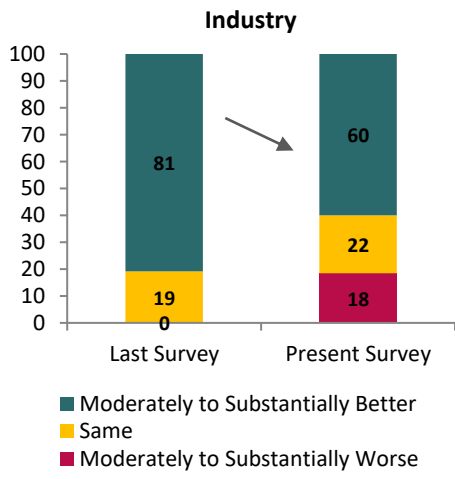
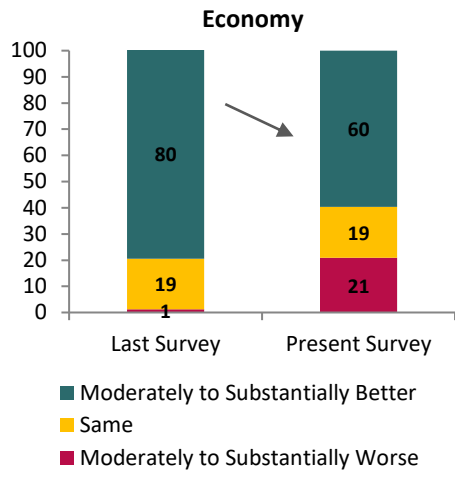
Results of the latest survey indicate deterioration in the optimism level of respondents about near-term prospects as well when compared to the previous round.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over next six months declined significantly to 60% in the current round compared to 80% participants reporting likewise in the previous survey.

Furthermore, only 60% of the surveyed companies reported that they expect an improved performance over the next six months at industry level. The corresponding number in the previous round was as high as 81%.

The proportion of participating companies hopeful of better prospects at the firm level also witnessed sharp deterioration. About 58% participating companies expected a 'moderately to substantially better' performance over the next two quarters in the current survey as compared to 84% respondents stating the same in the previous round.

Moreover, an increase was noted in the proportion of respondents citing a worsening in their outlook over the next two quarters at all three levels – economy, industry and firm.



The expectations of respondents regarding performance over the period January – June 2022 noted a deterioration at all the three levels – economy, industry & firm level



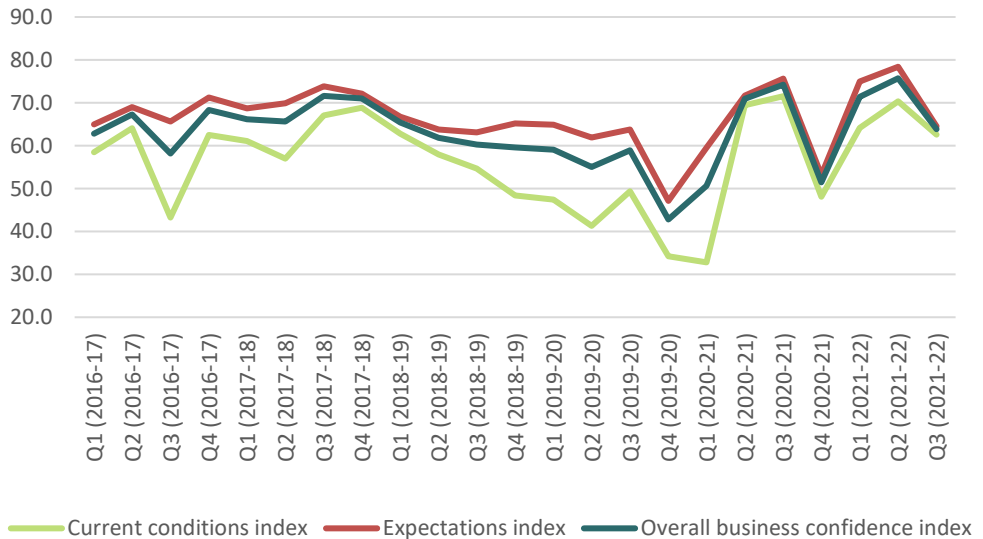
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Business Confidence Index

OBCI slips significantly from the levels observed in the previous quarter

OBCI stood at 63.9 in the present survey round on back of deteriorating performance in both current conditions as well as expectations

Overall Business Confidence Index



Significant moderation in the confidence levels of corporate India was witnessed in the latest survey round. Overall Business Confidence Index slumped and stood at 63.9 in the present survey round as compared to an index value of 75.7 in the previous survey.

Participating companies reported substantial deterioration in current conditions and turned less optimistic about near-term expectations as well.

A steep rise in the number of fresh covid-19 infections has commenced the onset of the third wave of the pandemic which has severely dented confidence levels of corporate India. While the economy was witnessing nascent signs of recovery after the devastating second wave last year, the current surge in cases has once again increased uncertainty around the pandemic and its impact.

However, continuation of a localized approach to restrictions to deal with the sudden surge in cases is likely to minimize the adverse impact of the pandemic on economic activity. Given that personal demand and contact intensive sectors are once again being displaced by the fresh wave, it is important that the government announces some relief measures in the upcoming budget to support domestic consumption and the sectors adversely impacted.

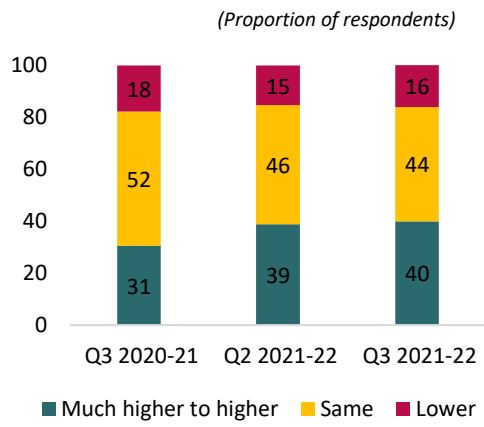
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Operational Parameters

Investments

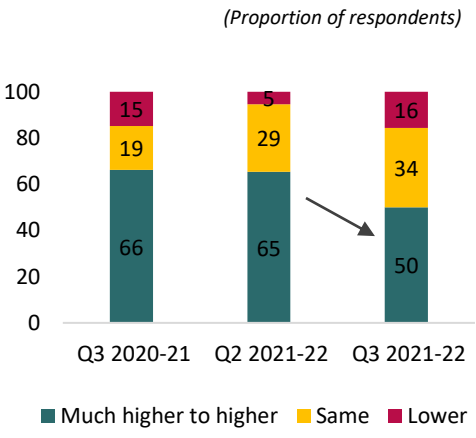
The proportion of respondents citing 'higher to much higher' investments in the coming six months did not see much change in the latest survey round.

About 40% participating companies anticipated an increase in investments over coming six months in the latest survey as compared to 39% respondents reporting likewise in the previous survey round.



Investment outlook remains unchanged...

Sales



Latest survey results reported a deterioration in the outlook of respondents with respect to sales.

About 50% participating companies anticipated an increase in sales over next two quarters which is lower than 65% respondents stating the same in the previous round's assessment. This may be attributed to a decline in sales momentum expected post festive season and persisting weak demand conditions.

...while sales prospects note a downtick...



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Survey results indicate deterioration in outlook on profits...

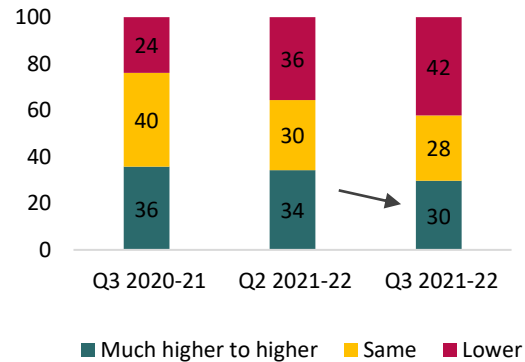
Operational Parameters

Profits

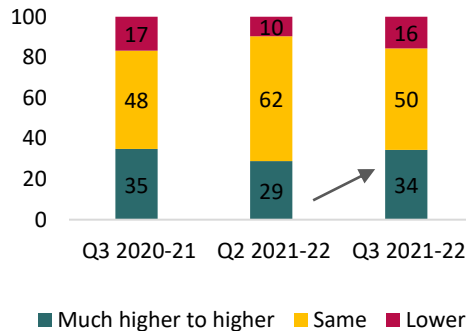
Outlook on profits noted a deterioration in the present survey round. Proportion of participants citing higher profits over next six months stood at 30% in the latest survey from 34% respondents stating likewise in the previous round.

While unfavourable demand conditions have lowered sales prospects, higher input costs have increased the cost of doing business thereby dampening the overall outlook on profits.

(Proportion of respondents)



(Proportion of respondents)



Employment

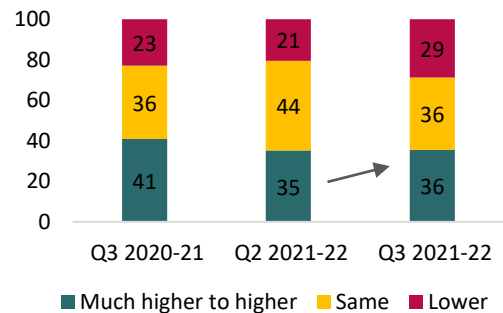
In the present round, 34% respondents said that they foresee hiring new employees over the next six months vis-à-vis 29% respondents stating likewise in the previous round.

Also, an increase was noted in the proportion of respondents citing lower hiring activity over the next two quarters. About 16% participants expected lower hiring in the latest round vis-à-vis 10% reporting likewise in the previous survey

Exports

In the latest survey, 36% respondents said that they foresee higher to much higher exports over next two quarters. The corresponding number in the previous round was a notch lower at 35%. Furthermore, an increase was noted in the proportion of participants anticipating lower outbound shipments going ahead.

(Proportion of respondents)



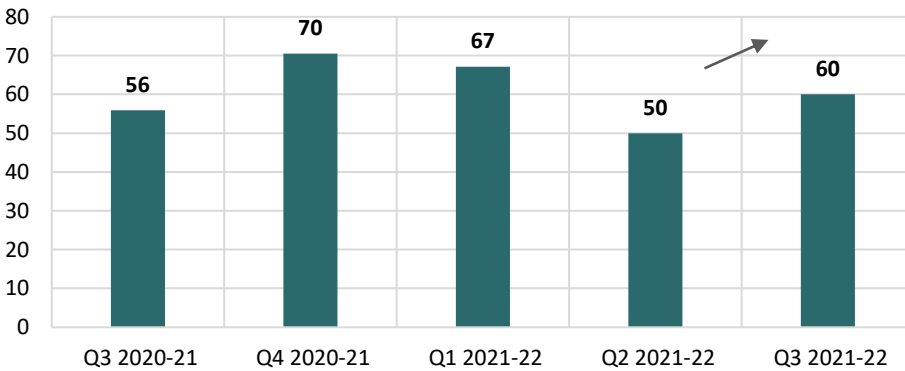
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Constraining Factors

Weak demand remains a major constraining factor for surveyed respondents

Although weak demand conditions have remained a major bothersome factor for participating companies over the course of the pandemic, some improvement was noted in the previous survey round. However, the situation seems to be worsening once again as indicated by our latest survey results. Around 60% of participating companies cited weak demand as a bothersome factor for their business in the latest round - higher than 50% stating likewise in the previous round.

(Proportion of respondents)



...around 60% respondents cited weak demand as a constraining factor....

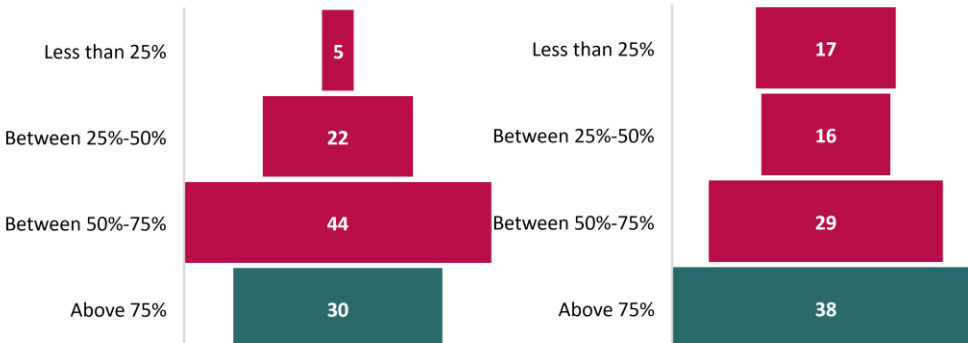
Weak overall demand conditions has also impacted the capacity utilization rate of Corporate India. Only 30% respondents, indicated a capacity utilization rate of over 75% in the present round vis-à-vis 38% stating likewise in the previous round.

Capacity Utilization

(Proportion of respondents)

Present Survey

Last Survey



...capacity utilization rate of over 75% reported by only 30% respondents...

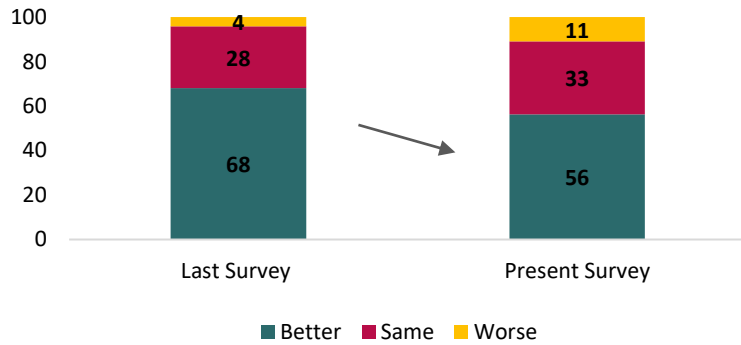
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Constraining Factors

Proportion of respondents anticipating better order books over next six months declined in the current survey. About 56% companies expected an improvement in their order book position in coming six months vis-à-vis 68% who stated likewise in the previous round.

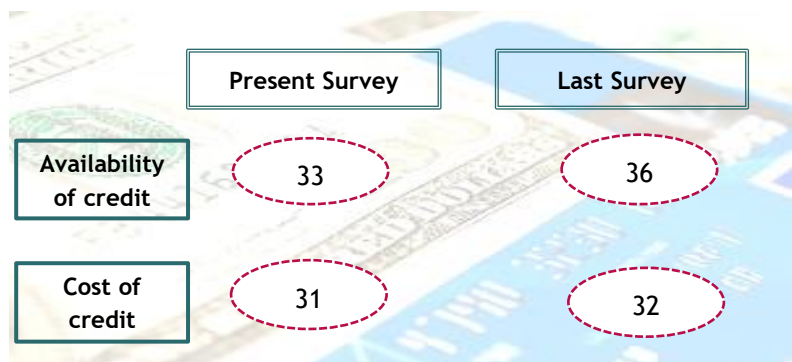
(Proportion of respondents)

Expected order book position over next two quarters



Credit Situation

In the present survey, proportion of respondents citing cost of credit as a worrisome factor declined marginally as compared to the previous round- around 31% participants cited credit costs as a concern.



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Constraining Factors

Moreover, the proportion of respondents citing availability of credit as a concern noted a significant decline. About 33% of the respondents cited availability of credit as a bothersome factor. The corresponding number was 36% in the previous round.

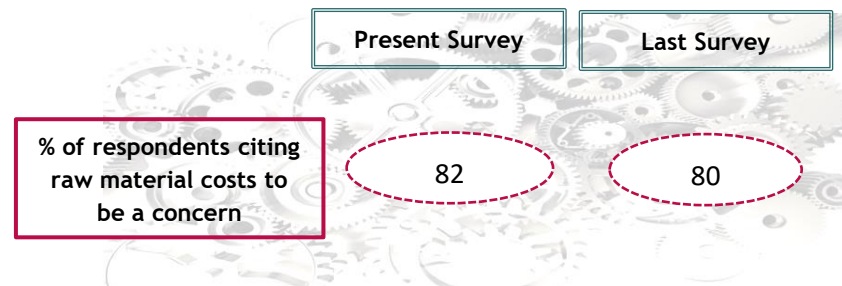
Survey findings indicate that companies are paying an average interest rate of 9.0% on term loans and an average interest rate of 9.1% on working capital loans.

Average Interest on Term Loans: 9.0%
Average Interest on Working Capital Loans: 9.1%

Raw Material Costs- A Major Concern

In the present survey, rising raw material prices continued to be a major constraining factor for 82% of the respondents. The corresponding figure in the previous survey round was 80%, and about 59% a year back. This was the seventh consecutive quarter which witnessed an increase in the proportion of respondents reporting higher raw material costs as a bothersome factor. High commodity and input prices have exerted tremendous price pressures on businesses.

(Proportion of respondents)

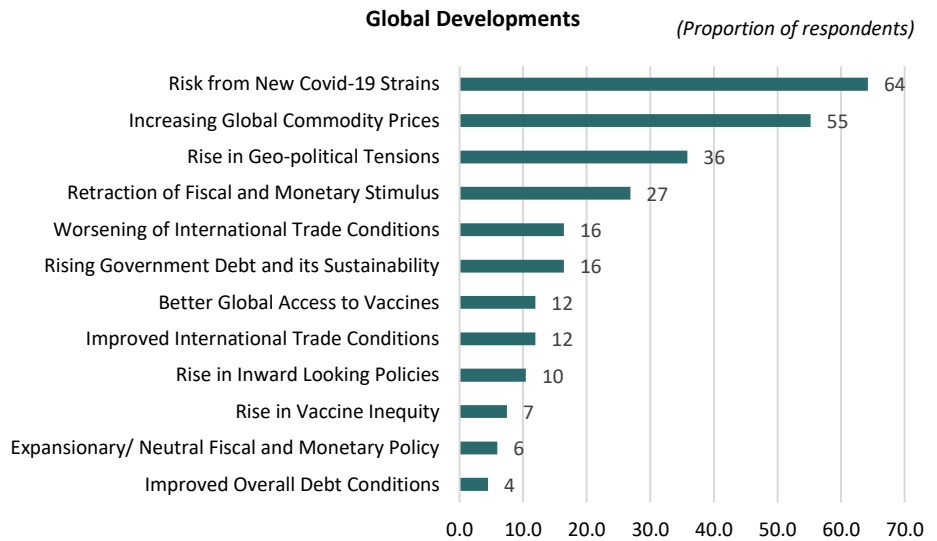


Rising raw material costs pose a major challenge for 82% of the participating companies...

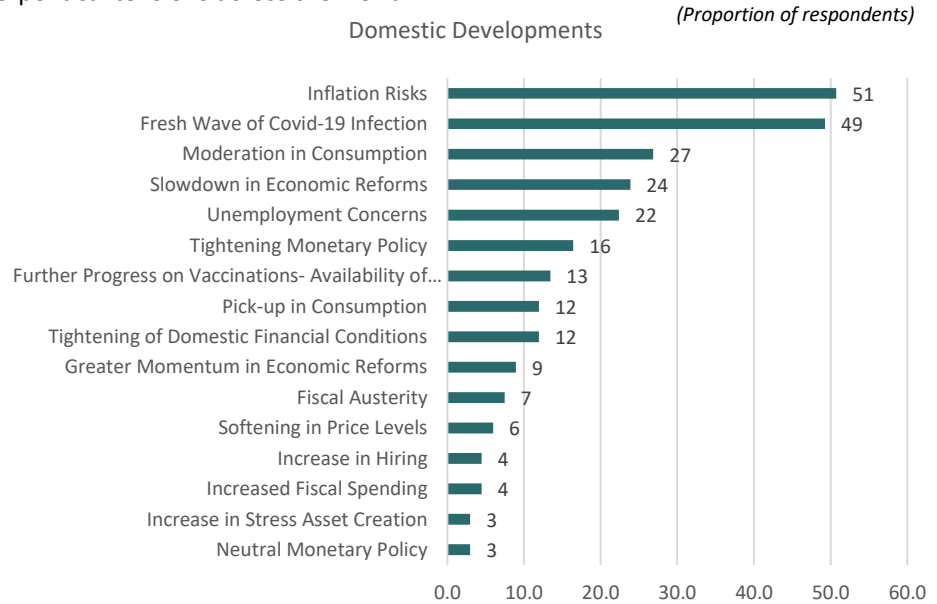
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Trends to watch out for in 2022

As we step into the new year 2022, participating companies were asked to share the top global and domestic trends that will govern the year.



With the global economy facing a fresh wave of the pandemic led by Omicron variant, risk from new covid-19 strains was touted as the topmost trend going forward followed by persistent increase in global commodity prices and sustained geo-political tensions across the world.



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On the domestic front, participating companies cited inflation risks along with future possibilities of the fresh wave of covid-19 pandemic as the topmost developments that they will keep a watch on in 2022.

India has been facing a massive increase in covid infections since the last week of December 2021 which has raised the level of uncertainty considerably. Consequently, consumption demand has been impacted yet again and was also indicated by the respondents of the survey among the top most trend that they will have an eye on in 2022.

Fresh risks from new COVID-19 strains remains a key impediment to return to normalcy. Health and livelihoods risk emanating from each wave dampens consumer sentiment and weakens demand conditions. Persistent weak demand conditions is delaying the much-needed private investment cycle push.

Respondents of the survey were near unanimous in listing out rising raw material costs, high commodity prices and overall increase in costs of doing business among their topmost challenge in 2022. Higher input prices is building inflationary pressures in the system which can be seen as a major risk specially at a time when the economy was just returning to normal. Moreover, inadequate availability of crucial raw material has also emerged as a major concern area.

In addition, ambiguity surrounding the pandemic and related restrictions adds to the cash flow pressures of businesses. Lack of availability of affordable credit was indicated as a bothersome factor by many participants as they struggle to sustain their business. In addition, high transport & logistics costs along with supply chain logjam is causing delays in transit and creating impediments.

Furthermore, slowdown in economic reforms, growing unemployment concern and expectation of a tighter monetary policy were some of the other major developments highlighted by the companies to look out for in 2022.

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Top Opportunities in 2022

<u>Opportunities</u>		
Improved domestic & external demand conditions	Strong vaccination drive to restore normalcy	Improved government policies to tackle cheap imports
Increased focus on agriculture	Softening of commodity and raw material prices	Better availability of raw materials
Investment for technology upgradation and scale: Adoption of Industry 4.0	More economic reforms/ positive budget announcements	Greater digitization of banking services even in remote areas
Better opportunities in external markets- global supply chain diversification	Easing freight costs & overall cost of doing business	Consolidation of business & re-engineering of business process
Capex led growth driven by government	Atmanirbhar Bharat: Renewed focus on Make in India	New product launches/ market diversification
Fresh wave of Startup Culture and entrepreneurship	Greater formalization of economic activity	Improvement in ease of doing business

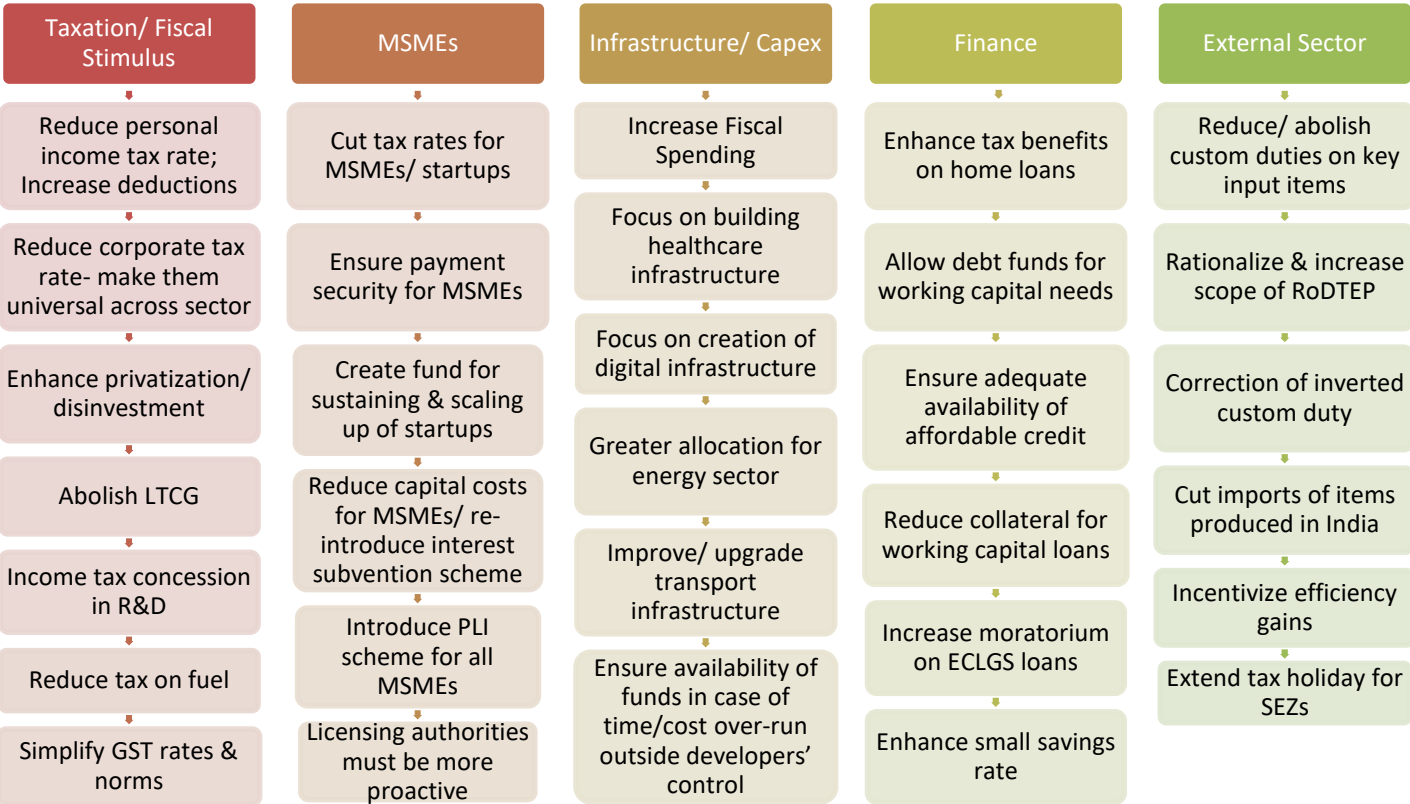
Participating companies listed out a plethora of opportunities they foresee in 2022 despite the pandemic blues, the most important being a sustained revival in economic activity and thus consumer sentiments. Participants of the survey believed that demand conditions- both external as well as domestic- will improve, going forward. While a majority of the adult population has been fully vaccinated, opening up of booster shots and vaccination of children between 15-17 years of age is very encouraging. However, vaccination drive for children below the age of 15 years must also be expedited to witness a strong and sustained revival to normalcy.

Participants of the survey also indicated increasing investments in upgrading their business operations both in terms of technology as well as scalability. Moreover, the government is in talks for signing free/ preferential trade agreements with a host of countries. Timely preparation for the new opportunities would help them capture better deals in the external markets especially when global value chains are diversifying. In addition, a fresh wave of entrepreneurship and startup culture along with renewed focus on Make in India is likely to further stimulate the economy and is a very encouraging trend.

Respondents are also optimistic about greater reforms and are keenly looking forward to the upcoming Union Budget for the much-needed policy support. Furthermore, the government's intention of easing the business environment will also be supportive of industrial growth during the year. Businesses are also looking forward to constructive consolidation and re-engineering of their business operations to spur growth, going forward.

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Key Expectations from the Union Budget 2022-23



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Survey Profile

The survey drew responses from about 175 companies with a turnover ranging from Rs 1 crore to Rs 10,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period January to June 2022.

Broad Sectoral Coverage			
Agricultural Equipment	Textile/Apparel	Chemicals	Infrastructure
Services	Real Estate	Metals	Electronics & Electricals
Energy	Engineering Goods	Food Processing	Banking & Financial Services
Automotive	Consultancy	Travel & Tourism	Pharmaceutical
Packaging	Satellite Communication	Consumer Products	Transport & Logistics

Federation of Indian Chambers of Commerce and Industry
Federation House
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