BOMBAY CHAMBER

Bombay Chamber of Commerce & Industry

ECONOMIC OUTLOOK SURVEY

(May, 2018)

(Based on Inputs Received from Member's of Bombay Chamber)

Policy Research & Development (PR&D) Committee

Bombay Chamber of Commerce & Industry

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BACKGROUND

The Policy Research & Development (PR&D) Committee of Bombay Chamber of Commerce & Industry has taken the initiative of conducting a quick survey related to perceived Economic Outlook over the next twelve months among Chamber's members. It highlights some challenges of doing business in India involving economic development generally and industrial development in particular. The same provides inputs for regulatory review.

This survey consists of three sections, BUSINESS CHALLENGES, FINANCIAL MARKETS and MACROECONOMIC POLICIES. 33% of the respondents largely belong to senior management and represented industries, banking and service sector. Larger companies consisted of 53%, midsized 33% and smaller companies 14% of respondents. Also, more than 70% of the respondents are organizational head & senior management.

The findings are discussed in the enclosed survey result. Please do not hesitate to get in touch with us if we can of further assistance to you.

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Director General

Bombay Chamber of Commerce & Industry

ECONOMIC OUTLOOK SURVEY

1. BUSINESS CHALLENGES

i. *What could be the challenges for conducting business over the next 6-12 months?*

- *91% : 'Cost of Capital/Credit to the Industry'.*
- *89% : 'Higher Costs Due to Higher Interest Rates'.*
- *87% : 'Availability of Credit for Business'.*
- *87% : 'Increasing Energy Prices'(87% cited petrol, 84% electricity, 76% Natural gas, 61% availability of energies).*
- *84% : 'Demand Conditions in the Domestic Economy'.*
- *83% :'Changes in Government Policies With Respect to Taxes or Subsidies'.*
- *79% :'Hardening of Global Metal Prices'.*
- *76% :'GST issues and problems with the same'.*
- *71% :'Issues related to E-way Bill'.*

ii. *Is the impact of global import, i. e, imports at a price which is lower than domestic price is one of the important business challenges at present?*

- *77% of the respondents believe availability of lower priced import is an important business challenge.*

iii. *Is the issue of 'Competitiveness' with respect to the export market is one of the important business challenges at present?*

- *88% of the respondents believe the issue of 'Competitiveness' with respect to the export market is one of the important business challenges at present.*

iv. *The overall level of Capacity Utilization in Business at this Moment*

- *49% believe their capacity utilization is greater than 70%.*
- *51% believe their capacity utilization level is less than or equal to 70%.Of them 20% believe the utilization level is well below 60%.*

2. FINANCIAL MARKETS

v. *From whom do you access Trade Credit (including for exports & imports) for your Business?*

- *86 % of the respondents access their trade credit from Banks.*
- *14% from others (<1% from Exim/NBFCs).*

vi. *Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount in 2018 compared to a year ago?*

- *88% of the respondents find it same or more difficult.*
- *12% of the respondents find it easier.*

vii. *Which are the instruments/areas where you face difficulties/obstacles from the lenders?*

- *58% of total respondents are facing top two difficulties, which are '**cash credit'** and **'foreign exchange operations'**.*

3. MACROECONOMIC POLICIES

viii. *Inflation Expectations: Input Price/Price of Key Products*

- *90% of the respondents expect their 'input prices' to go up in the next twelve months.*
- *The average input price rise is 5.7%.*
- *82% of the respondents expect their 'output prices' to go up in the next twelve months.*
- *The average output price rise is 5.7%.*
- *Expected change in output margin is 0%. (While the absolute value of output margin increases, margin as a percentage of output does not change).*

Example Comments (for Above):

- *"Metals and Fuel inflation directly affects our input costs".*
- *"Inflation because of crude prices could affect the cost".*

- ” We expect prices to go up with headline CPI inflation around 5% levels in FY19”.

(Pl. see Appendix for comment details).

ix. *Expectations on the Changes in ‘Repo Rate’.*

- *64% of the respondents expect repo rate to increase in coming days.*
- *Of the above 60% believe 25 bps rate hikes this year and 40% indicated greater than 25 bps hike.*

Example Comments (for Above):

- *“While we expect one 25 bps rate hike in FY19, possibility of another 25 bps hike cannot be ruled out”.*
- *“Expect RBI to attempt to hold the Repo rate and leverage other instruments”.*
- *“Given projected growth and revival in investment demand, repo rate may not be touched”.*

(Pl. see Appendix for comment details).

x. Prevailing Average Money Market Rate in the unorganized sector for Wholesalers/Semi Wholesalers.

- *50 % of the respondents reverted to the question.*
- *The weighted average of money market rate in the unorganized sector for Wholesalers/Semi Wholesalers is 14 %(range 4% to 28%).*

Example Comments (for Above):

- *“This is seasonal in nature and for gold or house rates etc again it depends on collaterals (generally interest rates are high) again money lenders have very high rates for farmers etc”.*
- *“Rates charged by NBFCs”.*
- *“Cost of borrowing for deposit is 9% for NBFC's. Inability to leverage borrower’s balance sheet optimally”.*

(Pl. see Appendix for comment details).

APPENDIX

Illustrative Comments for the Responses

1. BUSINESS CHALLENGES

i. *What could be the challenges for conducting business over the next 6-12 months?*

- *As experienced with our Steel and Aluminum suppliers, our PSU banker.*
- *Govt. Should allow business house to claim GST Credit refund on monthly basis and Vat excess payment refund for the payment Prior to GST came in force also control Diesel and steel price.*
- *Domestic investment has been sluggish/ weak due to high cost of credit.*
- *It has combined /consolidated impact.*
- *Higher input costs will push up prices. At the same time fresh capex and pricing power will be constrained by weak domestic demand.*
- *Domestic demand will stay stable, but exports will be challenging due to increase in the input costs.*
- *General trends in market are slowly becoming positive post demonetization.*
- *Spurt in prices of crude oils will have a cascading effect on the inflation, borrowing, deposits and lending rates.*
- *Market Conditions.*
- *As a mfg., the availability of the fund is very essential & at reasonable price. Also to be in export, competitive cost of fund is one of the key to gain more market share.*
- *GST is very good but the REFUND process is terrible & there is no problem solving mechanism which is frustrating the industry.*
- *With rise in Fuel/Energy cost non availability of GST on time or stuck is main reason of low margin or loss of business.*

2. FINANCIAL MARKETS

ii. *What is the prevailing average money market rate in the unorganized sector and with NBFCs with special reference to wholesalers as well as semi wholesalers?*

- *Offers from various agencies.*
- *GST & VAT refunds are blocked with Govt.*

- *This is seasonal in nature and for gold or house rates etc again it depends on collaterals (generally interest rates are high) again money.*
- *Lenders have very high rates for farmers etc.*
- *Rates charged by NBFCs.*
- *Cost of borrowing for deposit is 9% for NBFC's. Inability to leverage borrower's balance sheet optimally.*
- *It works out to Rs. 2.25 per 100 per month.*
- *Trade Experience.*

iii. *Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount in 2018 compared to a year ago?*

- *No TL pending. CC limits available against mortgage.*
- *Our Bank Limit renewal proposal with IDBI Bank is held up since last 5 month.*
- *Since our repayment is proper to our lender we are not facing any issues in case of borrowing.*
- *In view of NPA's it has become very difficult also affecting credibility of banks have got affected availability of funds.*
- *The NCLT has led to lot of delays.*
- *Banks' flexibility is visibly less.*
- *Regular customer with long term relation, one does not see the fund problem but cost is major issue in present condition.*
- *Due to sudden withdrawal of BC facility. No doubt bank does lend more but at "cost".*
- *Post scams, risk appetite to lend seem averse.*

iv. *Which are the instruments/areas where you face difficulties/obstacles from the Lenders?*

- *Their Cash is tied up in projects.*
- *Nothing significant on procedural front. However, the Interest rate could be reduced by 150 points.*
- *RBI guide lines.*
- *Actually it is all combined have become difficult.*
- *We are dealing with exports to Iran, and we have lot of challenges on this front.*
- *Not for the Group or the group companies but for some of the suppliers to our companies etc getting the above has been slightly difficult.*
- *Bank's hardening outlook due to their mounting NPAs.*
- *Well, we do not see difficulties/obstacles from our lender as of now but as have mentioned earlier "cost" is very high compared to Global cost.*
- *Removal of expired BGs from the list*
- *Due to fluctuation in forex we are facing difficulties on forward cover.*

MACROECONOMIC POLICIES

v. *Inflation Expectations :Input Price/Price of Key Products*

- Petroleum prices and hence the chemical prices have gone up substantially. (2)
- Inflation because of crude prices could affect the cost.
- Our RM prices are linked to oil prices.
- Roofing season is over. Bussan Steel will be back on track.
- Metals and Fuel inflation directly affects our input costs.
- Steel prices are up every week.
- We expect prices to go up with headline CPI inflation around 5% levels in FY19.
- The increased global crude oil price is bound to result in inflation going up. The global shipping market for bulk and container segments are expected to improve a bit though prospect for tanker segment doesn't appear encouraging.
- We are a NBFC and are in the business of lending loans. Interest rates are hardening hence, the prices of inputs and our key products will go up.
- Potential US embargo on Iran causing oil prices to go up and other input costs/prices also. Weakening of INR
- Reforms to support downward trending are not in place at a execution level.

vi. *What is your expectation on the changes in RBI's Repo Rate?*

- While we expect one 25 bps rate hike in FY19, possibility of another 25 bps hike cannot be ruled out.
- NA
- Banking activity will remain stagnant for a variety of reasons.
- Rise in inflation rate.
- None.
- Expect RBI to attempt to hold the Repo rate and leverage other instruments.
- Election year - unlikely to see such change.
- No borrowings at the moment. Change expected by 0.25% (25bps).
- Govt. Will be influenced to keep rates constant.
- To meet target inflation increase in Repo could only be marginal. To ensure higher credit off take the rate will go northwards only to cove risk on new ventures while for capacity expansion for established entities it will be held at current levels.
- Given projected growth and revival in investment demand, repo rate may not be touched. Cost may go up in view abnormal event the banking industries are in, mainly NPA and possible write off's.