BOMBAY CHAMBER
Bombay Chamber
of Commerce & Industry

ECONOMIC OUTLOOK SURVEY

(July, 2020)

(Based on Inputs Received from Members of Bombay Chamber)

Banking, Finance & Economic Affairs (BFE) Committee

&

Policy Research & Development (PR&D) Committee

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FOREWORD

The Bombay Chamber conducts Economic Outlook Survey periodically to solicit inputs from member companies on **BUSINESS CHALLENGES**, **FINANCIAL MARKETS** and **MACROECONOMIC POLICIES**. The survey result highlights some challenges of doing business in India involving economic development generally and industrial development in particular. The same provides inputs for regulatory review. The previous survey was conducted and **submitted to the Reserve Bank of India in December 2019**.

This edition of the Outlook Survey has an additional section on COVID-19 where 41% of respondents confirmed that their Confidence Level has been improved post the Rs.20 Trillion package and the RBI announcement. However 76% of the respondents believe businesses will be impacted for at least coming three quarters or more. Also, identical 76% of the respondents do believe in FY 21 the top line growth will be negative and 66% opined that to revive business 'salary cut' should be held between 10%-30%.Almost all respondents believe that they should shift from Producers and Consumers towards Local Products post the "Vocal for Local" announcement.

A comparison between recent two survey outcomes reveals-

- Business Challenges have become more difficult with respect to- **Credit to Industry, Issues related to E- way Bills and GST related issues.** Secondly, problems have increased for factors like access to- **Cash Credit and 'Foreign Exchange Operations'.** Lastly, majority of the respondents expects **"output prices" to go down** over the next 6-12 months, whereas, expectations in increase in **Repo Rate now is lower than previously.**

However, 64% (December, 2019) & 76% (June, 2020) of the respondents largely belong to senior management and represented industries, banking and service sector. More than **54 %(December, 2019) & 34% (June, 2020)** of the respondents are organizational head & senior management.

Larger companies consisted of **43.3% (December, 2019)** &**40% (June, 2020), midsized 23%(December,2019) &30%(June,2020) and small sized 34%(December,2019) and 20%(June,2020).**

The findings are discussed in detail in the enclosed survey result.

Please do not hesitate to get in touch with us if we can of further assistance to you.

Sandeep Khosla

Director General

Bombay Chamber of Commerce & Industry

ECONOMIC OUTLOOK SURVEY

1. COVID-19

i. Has your confidence level improved post the Rs 20 trillion package and the recent RBI announcements?

- **46.2%** of the respondents believe that their confidence level did not improve.
- **40.4%** the respondents believe that their confidence level did improve.
- **13.5%** of the respondents could not respond properly.

ii. If yes, how much has your confidence level changed post the Government package?

- **69.2%** of the respondents believe that their confidence level is less than 50%.
- **25.6%** of the respondents believe that their confidence level is between 50%-75%.
- **2.6%** of the respondents believe that their confidence level is between 75%-85% and **2.6%** confirmed more than 85%.

iii. How many months of business will be impacted for FY 21?

- **40%** of the respondents believe that it will be impacted for 3 quarters.
- **36%** of the respondents believe that it will be impacted for 4 quarters or more.
- **18%** of the respondents believe that it will be impacted for 2 quarters and **6%** of the respondents believe that it will be impacted only for 1 quarter.

iv. How much Top line growth is likely in FY 21?

- **41.2%** of the respondents believe that it will be -ve 20%.
- **25.5%** of the respondents believe that it will be between 0%-10% .
- **15.7%** of the respondents believe that it will be between -ve 1%-10%.
- **2%** of the respondents believe that there will be negative growth, **2%** believe that it will be –ve 30% and **2%** believe that it will be –ve 20%-40%.

v. To revive business, are you looking at salary cuts, if yes how much?

- **34%** of the respondents consider it should be between 10%-20%.
- **31.9%** of the respondents consider it should be between 20%-30% and **6%** consider it should be more than 30%.

vi. To fund fixed costs for initial period whenever lock-down is lifted, what will you prefer to cover the fixed costs for initial period?

- **51.9%** believe that they would prefer **Cost Cut**.
- **17.3%** believe that they would prefer **Working Capital Borrowing.**
- **9.6%** believe that they would prefer **Higher Productivity** and **5.8%** believe that they would prefer **Encase Investments/ Monetization of Assets.**

vii. Once the economy is reopened, do you think discounting will be needed in your sector/business?

- **51%** believe that discounting is needed.

viii. If yes, how much?

- **38.8%** believe that less than 10% discounting is needed.
- **6.1%** believe that more than 40% discounting is needed and
- **4.1%** believe that 30%-40% discounting is needed.

ix. Will we shift from producers & consumers towards local products post the "Vocal for Local" announcement?

- **43.1%** believe that the shift will be between 10%-25%.
- **37.3%** believe that the shift will be less than 10%.
- **13.7%** believe that the shift will be between 25%-50% and **5.9%** believe that it will be between 50%-75%.

2. BUSINESS CHALLENGES

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

- **94%** 'Increasing Energy Prices' (**87%** cited Petrol, **94%** Electricity, **85%** Natural Gas and **90%** Availability of Energies).
- **94.3%**: 'Demand Conditions in the Domestic Economy'.
- **92.1%** 'Cost of Capital/Credit to the Industry'.
- **92.3%** 'GST Issues and Problems with the Same'.
- **96.2%** 'Changes in Government Policies With Respect to Taxes or Subsidies'.

xi. 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?

- **34%** of the respondents believe that **availability of imports at a lower price** is an important business challenge.

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

- **43%** of the respondents believe that it is one of the important business challenges at present.

xiii. The overall level of Capacity Utilization in Business at this Moment?

- **10%** believe that their **capacity utilizatio**n is greater than 80% and **26%** believe that it is between 60%-70% and **4%** believe the utilization level is between 70%-80%.
- **60%** believe that their capacity utilization level is less than 60%.

2. FINANCIAL MARKETS

xiv. From whom do you access Trade Credit (including for exports & imports) for your business?

- **81.6%** of the respondents access their trade credit from Banks.
- **14.3%** from others whereas from NBFCs and EXIM is negligible.

xv. Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount in 2020 compared to a year ago?

- **92.7%** of the respondents find it same or more difficult.

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

- **77.5%** of total respondents are facing top three difficulties, which are ***'Cash Credit', 'Term Lending'*** and ***'Foreign Exchange Operations'.***

3. MACROECONOMIC POLICIES

xvii. What do you think is needed from government to revive demand and make you more positive?

- **65.4%** of the respondents believe that factors such as GST rate cuts, Personal Direct Tax cut and Direct Money Transfer to middle and lower income class is needed.
- **9.6%** do believe cut in GST Rate is the most important one.

xviii. Inflation Expectations: Input Price/ Price of Key Products/ (Outputs) (next 12 months)?

- **71%** of the respondents expect their **'input prices' to go up**.
- The average input price rise is expected to be **5%**.
- **35%** of the respondents expect their **'output prices' to go up**.
- The average output price rise is expected to be **8.25%**.

xix. What are your expectations on the changes in RBI's Repo Rate?

- **35%** of the respondents expect repo rate to increase.
- Of the above **8%** believe 25 bps rate hikes and **26%** indicated greater than 25 bps hike this year.

xx. What is the prevailing average Money Market Rate in the unorganized sector and with NBFCs with special reference to wholesalers/semi wholesalers?

- The money market rate has been between 10%-12%.

APPENDIX

A. ILLUSTRATIVE COMMENTS RELATED TO RESPONSES

1. BUSINESS CHALLENGES

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

- Availability of materials/ services at reasonable price is critical. Lesser time required to be spent by corporate on complex government compliance requirements will add to competitiveness and enhance willingness to grow business.
- Banks are hesitant to increase limits even to large clients. Cost of Bank guarantees (BG)/ Letter of Credit (LC) is being increased citing increase in capital costs and other administrative costs, Bank Guarantee limits. Single Borrower Limit/Group Borrower Limit constraints on bank are impeding grant of credit. Customers are not accepting BGs from foreign banks increasing the cost and dependence on Indian Banks. This is impeding growth.
- Capital should be available to genuine business with good project reports.
- Service industry is struggling since long and even after reduces in cost of tax rate the clients are currently not passing the proper GST benefits and cutting full TDS.
- Companies can manage using issue of Equity, Preference shares, etc. But external Finance for MSMEs will be challenging due to uncertainty of paying back loans from lenders' perspective.
- Trade credit to MSME is not easily available as no matching collateral securities available with borrowers. Invoice discounting by banks at a fair rate is the only solution.

2. FINANCIAL MARKETS

i. Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount in 2020 compared to a year ago?

- Bankers and or financial institution are more conservative now than previous period.
- Mergers of banks and resulting confusion.
- RBI says working capital eligibility will increase by 20%, we have applied for the additional Limits immediately on announcement. Bank has confirmed that they will give but till date nothing is disbursed. This delay after sanction is the same, whenever the documentation formalities will be completed they will release, but when? Already 3 months in lockdown is over.
- Borrowing was not considered in the pre-COVID era. It is required only now.
- Banks are seeking Impact analysis of Covid19, Insistence on security, increasing pricing for banking products.
- Matching collaterals with enhanced funding is always a problem.

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

- Expecting problems related to Drawing Power based on 90 days Debtors and Stock as no sale since last 2 months.
- Remittances to be sent abroad are taking much longer.
- Corporate do not respect return of guarantees and banks delay reversal of credit and moneys are locked. BG issuance cost is also high.
- A change in repo / reverse repo rates by RBI (reduction) not implemented by Lender to pass on the benefit to our Business Entity.
- Availability of enhanced credit due to mismatch in cash flow vis-a-vis need of incremental collaterals.
- A change in repo / reverse repo rates by RBI (reduction) not implemented by Lender to pass on the benefit to our Business Entity.
- High exchange margins compared to international standard.

3. MACROECONOMIC POLICIES

i. Inflation Expectations: Input Price/ Price of Key Products (next 12 months)?

- Consulting services will have cost pressure from procurers Asia CAPEX will go down.
- Lack of availability of transportation facilities, and lack of demand.
- Being in consultancy {service} area, there will neither be increase / decrease of input price or linked to price of products we are dealing in service.
- Being in service sector, it is expected that the customer would request for price reduction while there is possibility of freezing the cost in light of uncertainty.
- Supply chain disruption & muted demand.
- We expect input prices in general to increase Because of business closure & companies wanting to charge a slight premium to overcome losses in H1 of FY20-21. On the other hand being in the service industries we expect customers to exert downward pressure on our service pricing.
- RM import costs are severely affected due to currency devaluation and demurrage costs on goods stuck due to COVID lockdown. However, as market demand is low, finished goods prices have to be reduced to gain share.
- Commodity prices will see an increase. Given competitive scenarios and scarcity of business, it is unlikely we will be able to take price increases.
- Less demand of primary raw material will affect increase in input price. However, sales price will be under pressure as demand is low.
- Due to rupee depreciation, increase in labour cost due to social distancing norms/ shortage of labourers. Additional cost and resources expected due to COVID measures.

- Demand is less than the supply which will put the pressure on prices and oil prices are less.
- Imported product prices going up on the back of supply inconsistency and locally all products prices are in upswing only.
- Inability of most MSMEs to hold prices in face of overheads accumulation.
- We are closely working with the Travel and Tourism Industry (Hotels, Resorts, Airlines, Transport companies). For example: If we accommodate four people in a Hotel/Resort room, prices are viable. But due to social distancing this will reduce to assuming two. Hence, per person price will increase. Also similar issue is with the transport. For example: A bus with capacity of forty passengers may have to accommodate lesser number of passengers. Thus the bus agency or the hotel/resort is not going to bear the loss for the less occupancy; it will be transferred to the consumer. Hence, prices will rise. The price rise could be more that what is mentioned in the question (7.5% to 12.5%).

ii. What are your expectations on the changes in RBI's Repo Rate?

- Any further cut on Repo rate will make savings unattractive and dampen the demand.
- Interest rates will definitely go up- despite policy announcements, help from banks will not be forthcoming easily.
- In any Case Borrowing from Banks is not a solution. Government should be funding some part directly to MSME'S.
- Till lockdown, there was no need for borrowing. Due to lockdown, businesses have come to a halt, thereby giving rise to need for bank borrowing.

iii. 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?

- Finance not easily available. Rates are up except for Housing.
- Finance is difficult to obtain. The rates to obtain finance are ranging from 11%-13%.
- Payments are not easily getting realized.
- Money is available but fearful of demand fall and hence survival.

B. COMPARISON BETWEEN 2019 & 2020 DATA

1. BUSINESS CHALLANGES

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

Sl. No	**Challenges**	**December 2019**	**July 2020**
1	Cost of Capital/Credit to the Industry	89%	92.1%
2	Higher Costs Due to Higher Interest Rates	75%	88.2%
3	Availability of Credit for Business	86%	86%
4	Increasing Energy Prices	96% (84% cited petrol, 92% electricity, 74% Natural gas, 69% availability of energies)	94% (87% cited petrol,94% electricity 85% Natural gas, 90% availability of energies)
5	Demand Conditions in the Domestic Economy	96%	94.3%
6	Changes in Government Policies With Respect to Taxes or Subsidies	79%	96.2%
7	Hardening of Global Metal Prices	81%	68%

8	GST issues and problems with the same	82%	92.3%
9	Issues related to E-way Bill	64%	77.7%

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?**

Sr. No	Challenges	December 2019	July 2020
1	Availability of lower priced import	96%	34%

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

Sr. No	Challenges	December 2019	July 2020
1	Issue of 'Competitiveness' with respect to the export market	96%	43%

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

Level of Capacity	December 2019	July 2020
<60	18.5%	60%
60-70	22.2%	26%
70-80	37%	4%

>80	22.2%	10%

2. FINANCIAL MARKETS

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

Trade Credit	**December 2019**	**July 2020**
Banks (public sector/private sector)	72.7%	81.6%
NBFCs	4.6%	2%
Others	22.7%	16.3%

ii. **Have you noticed any change in your lender's willingness (based on the risk rating of the borrower) to lend additional amount?**

- **In 2019 compared to a year ago?**

  December, 2019

  - **95%** of the respondents find it same or more difficult.

- **In 2020 compared to a year ago?**

  June, 2020

  - **93%** of the respondents find it same or more difficult.

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

Instruments/Areas	**December 2019**	**July 2020**
Cash Credit	-	37.5%
Non- Cash limits; guarantees	60%	-

Term Lending	60%	20%
Foreign Exchange Operations	-	20%

3. MACROECONOMIC POLICIES

i. Inflation Expectations: Input Price/ Price of Key Products (next 12 months)?

Instruments/Areas	December 2019	July 2020
Input Price Rise	88%	71%
Output Price	85%	35%
Average of Price Rise of Input Prices	5%	5%
Average of Price Rise of Output Prices	5%	8.25%

ii. What are your expectations on the changes in RBI's Repo Rate?

Instruments/Areas	December 2019	July 2020
Repo Rate to increase in coming days	42%	35%
25bps	60%	8%
More than 25bps	40%	26%

iii. 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?

Instruments/Areas	December 2019	July 2020

Respondents reverted to the question	45%	40%
The weighted Average of Money Market Rate	15% (Range 8.5% to 36%)	12% (Range 10% to 18%)

FINDINGS

With respect to **BUSINESS CHALLENGES** a comparison between these two periods reveals

- ***Condition worsened for factors like***
    - *Cost of Capital/Credit to the Industry*
    - *Higher Costs Due to Higher Interest Rates*
    - *GST issues and problems with the same*
    - *Changes in Government Policies With Respect to Taxes or Subsidies*
    - *Issues related to E-way Bill*

As far as **FINANCIAL MARKETS** are concerned a comparison between these two periods reveals

- *Problems have* ***increased*** *with respect to access to 'Cash Credit and 'Foreign Exchange Operations'.*
- *It has remained* ***same or become more difficult*** *with respect to lender's willingness (based on the risk rating of the borrower) to lend additional amount in compared to a year ago.*

With respect to **MACROECONOMIC POLICIES** a comparison between these two periods reveals

- *Majority of respondents expect "output prices"* ***to decrease*** *in July 2020.*
- *Majority of respondents had lower expectations for Repo Rate to* ***increase*** *in December 2019; also in July 2020 they have lower expectations for that.*
- *Lastly, the weighted average of money market has* ***decreased*** *between these two periods by 3%.*

CORE TEAM

Mr. Sudhir Kapadia	**President, Bombay Chamber of Commerce and Industry, Partner & National Tax Leader, Ernst &Young LLP** Mobile: +91 9892333384 Email : sudhir.kapadia@in.ey.com
Mr. Sandeep Khosla	**Director General, Bombay Chamber of Commerce and Industry** Off : 6120 0201 (D) / 6120 0202 / Mobile: 9821075224 Email : dg@bombaychamber.com
Dr. Sidhartha Roy (Chair)	**Policy Research & Development Committee** Tel : (022) 6665 7691 Email: siddhartha2052@gmail.com
Dr. Sachchidanand Shukla (Chair)	**Banking , Finance& Economic Affairs Committee** Tel : 022 24932267 (ext 6661) / Mobile: 9821389309 Email : shukla.sachchidanand@mahindra.com
Dr. Sugeeta Upadhyay	**Bombay Chamber of Commerce and Industry** Tel. (D) + 91 22 6120 0217/ Mobile: 8879039446 Email : research@bombaychamber.com
Ms. Aparna Singh	**Bombay Chamber of Commerce and Industry** Tel. (D) + 91 22 6120 0238 Email: prd@bombaychamber.com