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Dun & Bradstreet Business Optimism Index

India | Q1 2009

January 2009

D&B Business Expectations Survey

Outlook for Q1 2009 - Key Highlights

- Composite Business Optimism Index at a record low
- Optimism Index for Net Profits at six and a half year low
- All the six optimism indices register decreases

Dun & Bradstreet is pleased to send you the latest D&B Optimism Index for India. It is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity.

Methodology

For the purpose of conducting the survey, a sample of companies belonging to basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the services sectors is selected randomly from Dun & Bradstreet's commercial credit information file. The sample selected is a microcosmic representation of India's business community.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventories and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent q-o-q changes.

Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index from Q4 2002. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. We trust that you will find the D&B Optimism Index as a useful tool in your day-to-day decision-making. Please do give us your feedback in this regard.

D&B Optimism Index for India for Q1 2009

The D&B Business Optimism Index for Q1 2009 was conducted in December 2008 - at a time when corporate sentiment was marred due to a confluence of factors such as waning domestic demand, reluctance by financial institutions to provide short-term liquidity, the recessionary conditions in the developed world, and the recent terror attack in Mumbai. The Indian economy is currently grappling with the ripple effects of the global financial crisis and the resultant slowdown on India's growth prospects. GDP growth moderated to 7.6% (y-o-y) during Q2 FY09 as against 9.34% during Q2 FY08 amidst slowing demand in the domestic market, high interest rates and elevated raw material prices during the second quarter. The impact of above mentioned factors was primarily felt in the manufacturing sector leading to further moderation in industrial growth. While the recent data for industrial production and exports points towards a rapid slowdown in the economic activity, the moderating advance tax collection indicate that companies are anticipating lower profits during the current fiscal. Industrial production as measured by Index of Industrial production declined for the first time in 15 years during Oct 08 (-0.34%) reflecting waning domestic demand and slowdown in exports. Exports have also registered negative growth for two consecutive months of Oct & Nov 08, as India's key trading partners were entering into recession or witnessing a slowdown thereby hampering the demand for Indian goods. In the current scenario, moderation in inflation seems to be the only respite. The headline inflation as measured by the Wholesale Price Index moderated to 6.43% during Dec 08 as compared to 8.66% during Nov 08.

With the Indian economy showing clear signs of a slowdown, the Government and the RBI have announced various fiscal and monetary measures aimed at providing the required impetus to the economy. Monetary measures which include reduction in CRR, Repo and reverse repo rate are likely to induce banks to lower rates and increase lending to productive sectors. Fiscal measures to step up Government spending and focus on infrastructure development are critical steps to stimulate

demand and provide additional employment opportunities. However, the timely implementation of these measures is the key to achieve the desired objectives. Although substantial easing of RBI's monetary stance coupled with considerable increase in Government expenditure will provide some support to the economy, they are not expected to completely offset the adverse impact of the global financial and economic crisis on India's growth prospects atleast in the short run. The full impact of these measures on economic activity will unfold over a period of time given the fact that effects of monetary and fiscal measures unravel with a lag.

Reflecting the prevailing bearish business sentiment, the Composite Business Optimism Index for Q1 2009 fell to 95.7 - lowest since it was introduced in Q4 2002. As compared to the previous quarter, the Composite Optimism Index declined by as much as 31.1% - a record fall. On a y-o-y basis, the BOI recorded the largest ever decline of 43%. Based on the responses received, it is observed that all the six optimism indices, namely volume of sales, net profits, new orders, inventory levels, selling prices, and employee levels have declined as compared to the previous quarter. While the sentiments have been bearish across all the sectors, the intermediate goods and Basic goods sectors in particular were the least optimistic. The rapid slowdown in demand for finished goods across various sectors is expected to hamper the demand of the basic and intermediate goods. This could have weighed down the sentiment of respondents from these sectors. Further, with significant moderation in demand and difficulty in obtaining credit, companies might defer capital expenditure which in turn is expected to take a toll on the capital goods sector. On Services front, the intensifying global financial turmoil, slowdown in global growth, the bearish sentiment in stock markets coupled with the recent terror attack on Mumbai has dampened sentiments of the respondents from this sector.

Q1 expectations for each of the six parameters are discussed on the following pages.

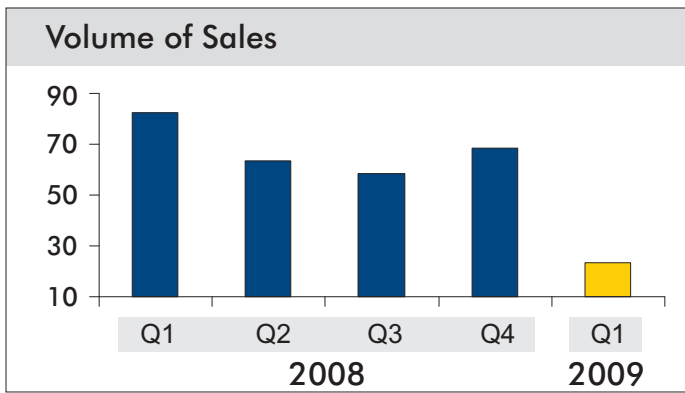
The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets, companies and Governments

Extract from December Manufacturing ISM Report on Business® (US Economy)

Economic activity in the manufacturing sector failed to grow in December for the fifth consecutive month, and the overall economy contracted for the third consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today (2-Jan-09) by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "Manufacturing activity continued to decline at a rapid rate during the month of December. The decline covers the full breadth of manufacturing industries, as none of the industries in the sector report growth at this time. New orders have contracted for 13 consecutive months, and are at the lowest level on record going back to January 1948. Order backlogs have fallen to the lowest level since ISM began tracking the Backlog of Orders Index in January 1993."

Manufacturing contracted in December as the PMI registered 32.4 percent, 3.8 percentage points lower than the 36.2 percent reported in November. This is the lowest reading since June 1980 when the PMI registered 30.3 percent. ISM's Production Index decreased to 25.5 percent in December, a decrease of 6 percentage points from the 31.5 percent reported in November. ISM's Employment Index registered 29.9 percent in December, which is a decrease of 4.3 percentage points when compared to the 34.2 percent reported in November. This is the lowest reading for the Employment Index since November 1982 when the index registered 28.2 percent. The ISM Prices Index registered 18 percent in December compared to 25.5 percent in November.

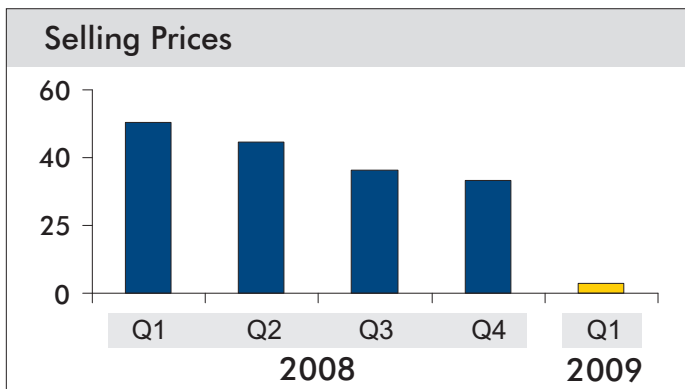
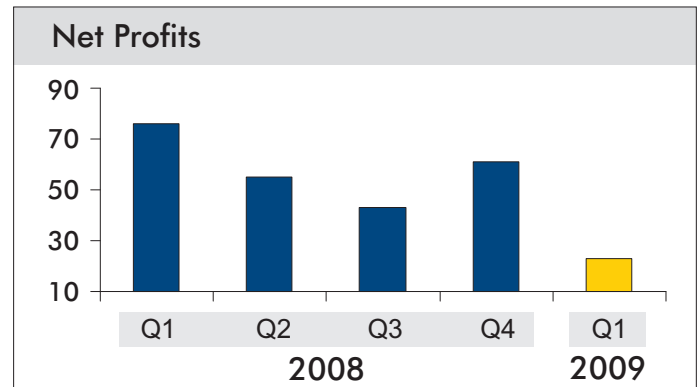


Volume of Sales

Demand conditions are expected to deteriorate significantly during Q1 2009. While about 47% of the respondents anticipate an increase in sales volume, as many as 24% of the respondents expect the sales volume to decline in Q1 2009. The resultant Optimism Index for Volume of Sales stands at 23%; this is the lowest value since Q1 2002. The resultant Optimism Index for Volume of Sales has declined by as much as 45 percentage points as compared to Q4 2008. While demand is expected to be muted across most sectors, the basic goods and intermediate goods sectors in particular were least optimistic with more than 30% of the respondents expecting a decrease in sales volumes.

Net Profits

Profit expectation for Q1 2009 has also plunged. Approximately 47% of the respondents expect an increase in profits during Q1 2009, while as many as 24% of the respondents anticipate a fall in their net profits. The resultant Optimism Index for Net Profits stands at 23% (six and a half year low) - a decrease of as much as 38 percentage points as compared to Q4 2008. The intermediate goods sector were the least optimistic, with as much as 56% of the respondents from this sector expecting a decrease in net profits during the Q1 2009. The Consumer durable and Consumer non-durable sector were comparatively more optimistic.

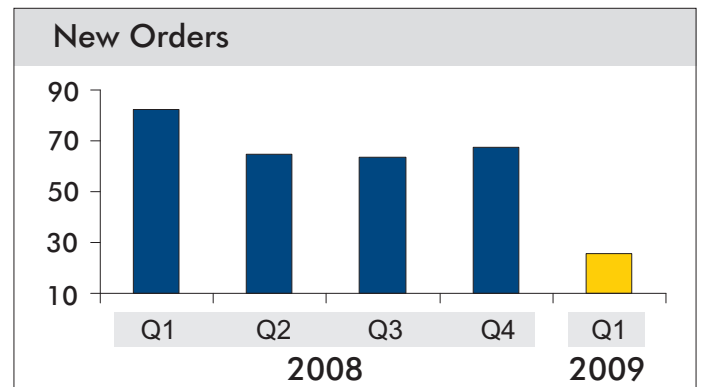


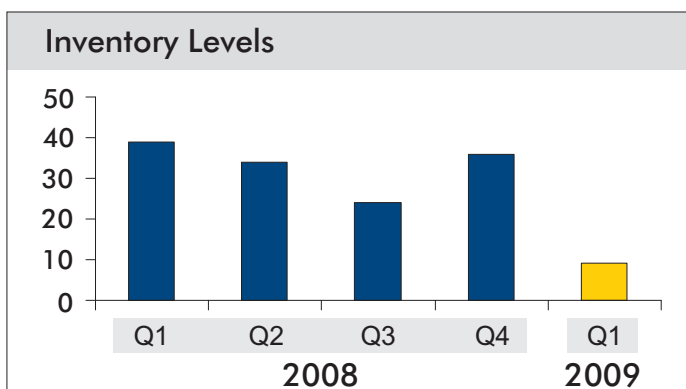
Selling Prices

With the moderating demand conditions and an across the board cut in the CENVAT (except for petroleum products), many respondents expect the selling price to decline in Q1 2009. While about 27% of the respondents expect the selling price to increase, about 24% expect the prices to decline during Q1 2009. However, a majority of respondent (49%) anticipate no significant change in the prevailing prices. The resultant Optimism Index for Selling Prices stands at 3% - a decline of 30 percentage points from Q4 2008. The intermediate sector was least optimistic about this parameter with about 50% of the respondents expecting a decrease in prices.

New Orders

Approximately 48% of the respondents expect their order book position to improve and 22% anticipate a decrease in the number of new orders during Q1 2009. The resultant Optimism Index for New Orders stands at 26% (a seven year low); a decline of 42 percentage points from Q4 2008. The consumer durables and capital goods sector were optimistic with more than 50% of respondents expecting an increase in new orders placed during Q1 2009. The Basic goods sector was least optimistic with as much as 29% of the respondents from this segment expecting a decrease in new orders placed.



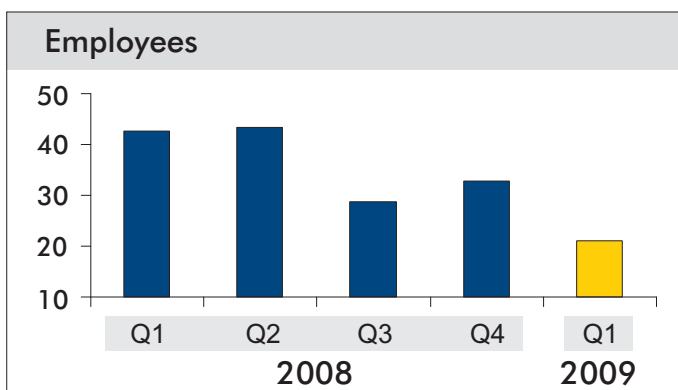


Inventory Levels

With large number of manufacturers opting for rationalising inventory while reducing current production in the wake of subdued demand conditions, a significant proportion of respondents are expecting their level of stock to decline in Q1 2009. While around 22% expect to witness a decline in the inventory level, around 31% of the respondents expect an increase in their level of stock in Q1 2009. The resultant Optimism Index for Inventory Levels stands at 9% - decrease of 27 percentage points from Q4 2008. Respondents from the Basic goods sector were least optimistic with around 94% of respondents expecting no change or decrease in inventory levels.

Employees

The majority of respondents anticipate no change in the size of the workforce employed during Q1 2009. Approximately 63% of the respondents intend to keep the number of employees unchanged. While 29% of the respondents expect an increase in the number of employees, 8% expect a decline. The resultant Optimism Index for Employees stands at a four year low at 21% for the Jan-Mar 09 quarter, a decrease of around 12 percentage points as compared with the Q4 2008. Among the sectors, the capital goods and consumer durables sector showed relatively greater inclination towards increasing the number of employees.



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