



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q2 2009

April 2009

D&B Business Expectations Survey

Outlook for Q2 2009 - Key Highlights

- Composite Business Optimism Index drops 2% (q-o-q)
- Optimism Index for Net Profits remained unchanged at 23%
- Five out of six Optimism Indices register decreases
- 52% of respondents expect their order book position to improve

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 Q2 2009

D&B Business Optimism Index for Q2 2009 was conducted in March - at time when sentiment was dampened amidst growing concerns over slowdown in Indian economy and increase in uncertainty on the domestic as well as global front. The sharp slowdown in demand coupled with heightened uncertainty in domestic market has placed significant downward pressure on growth prospects of the Indian economy in general and industrial sector in particular. GDP growth during Q3 FY09 slipped to 5.3% as compared to 7.6% (y-o-y) during Q2 FY09. While decline in agriculture sector (-2.2%) and significant slowdown in industrial sector (2.4%) weighed down the GDP growth, resilient growth registered by service sector provided some support. The services sector clocked a growth of 9.9% during Q3 FY09 as compared to 9.6% in Q2 FY09, mainly on account of 17.3% growth in the 'community, social and personal services' subsector. Increase in government spending is likely to have driven the growth in this subsector.

The negative IIP growth in Jan 09 (for the second consecutive month) once again highlights the subdued pace of economic activity. The rapidly shrinking domestic demand has been hampering industrial production during last few months. Decline in non-oil imports for two months in a row (Jan-Feb 09) also point towards weaker domestic demand. Further, the rapid decline in exports growth in wake of deteriorating external demand has also put downward pressure on industrial growth. Since India's exports are mostly labour-intensive in nature, the decline in export earnings will have serious implications on employment within these sectors.

Waning domestic demand conditions coupled with rapidly receding inflation has induced the RBI to ease its monetary stance further during Q4 FY09. The RBI reduced the repo and reverse repo rate twice during the quarter by a total of 150 basis points each to 5% and 3.5% respectively. Further the CRR was also cut by 50 basis points to 5%. Although few banks have reduced their lending rates in consonance with the RBI rate cuts, the extent of rate cuts has been low given that deposit rates are

at high levels. Moreover, the surge in the G-sec yield on concerns of an increase in Government borrowing has to some extent undermined the effectiveness of steep rate cuts by the RBI in recent months. The Government is set to borrow Rs. 2410 bn during H1 FY10 i.e. around two-third of its gross borrowing target of around Rs 3617.82 bn for FY10. The Government's decision to meet only one-third of its borrowing target in the H2 FY10, is likely to ensure availability of fund to the Indian corporate during this period. This would be helpful for the currently muted private investment, which is expected to witness some turn around by the beginning of Q3 FY10. This in turn is likely to have a positive impact on the future growth prospects of the Indian economy.

Reflecting the prevailing business sentiment, Composite Business Optimism Index for Q2 2009 recorded a decrease of 2% (q-o-q), which is a slight improvement over the 31% (q-o-q) drop in the previous quarter. The Composite Business Optimism Index for Q2 2009 fell to a new low of 93.8, after touching 95.7 in Q1 2009. On a y-o-y basis, the BOI for Q2 2009 recorded a decrease of 39% as against a decline of 43% in Q1 2009. Based on the responses received, it was observed that five out of the six optimism indices – namely, volume of sales, net profits, selling prices, new orders, and employee levels have registered decreases as compared to the previous quarter. Only one out of the six optimism indices – inventory levels – increased by seven percentage points as compared to the previous quarter. While the sentiment has been bearish across all the sectors, the capital goods sector in particular was the least optimistic. While the slowing pace of investment activity is expected to take a toll on the capital goods sector, increased uncertainty on the employment front is likely to weigh on the consumer goods industry. Further, the rapidly slowing industrial activity coupled with the uncertainty in the financial markets is beginning to affect the demand for services as well.

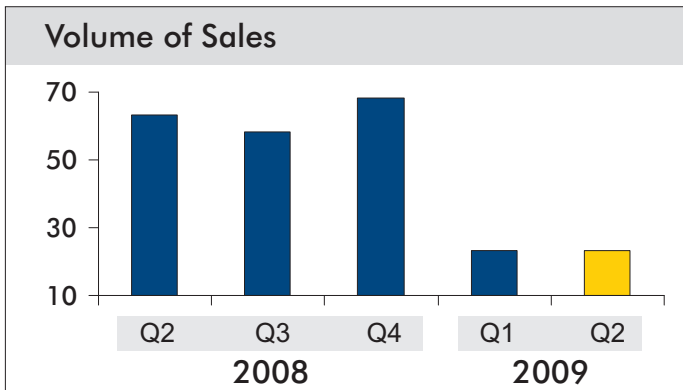
Q2 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

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 March for the 14th consecutive month, and the overall economy contracted for the sixth consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued today by Norbert J. Ore, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The rapid decline in manufacturing appears to have moderated somewhat, as the PMI remains in the mid-30s for a third consecutive month. While the PMI is slightly higher in March, the New Orders Index offers greater encouragement, as it rose above the 40-percent mark for the first time in seven months. The Production Index showed no benefit as yet from the improvement in new orders, as it continued to decline at a rate similar to March."

Manufacturing contracted in March as the PMI registered 36.3 percent, which is 0.5 percentage point higher than the 35.8 percent reported in February. ISM's New Orders Index registered 41.2 percent in March, 8.1 percentage points higher than the 33.1 percent registered in February. ISM's Production Index registered 36.4 percent in March, which is an increase of 0.1 percentage point from February's reading of 36.3 percent. Manufacturers' inventories contracted in March as the Inventories Index registered 32.2 percent, which is 4.8 percentage points lower than February's reading of 37 percent. ISM's Employment Index registered 28.1 percent in March, which is 2 percentage points higher than the 26.1 percent reported in February. The ISM Prices Index registered 31 percent in March, 2 percentage points higher than the 29 percent reported in February.

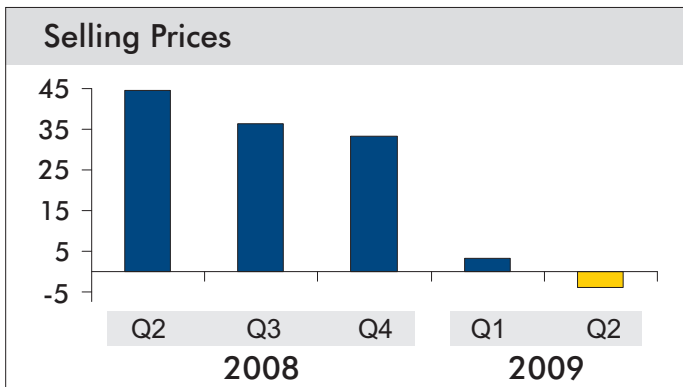
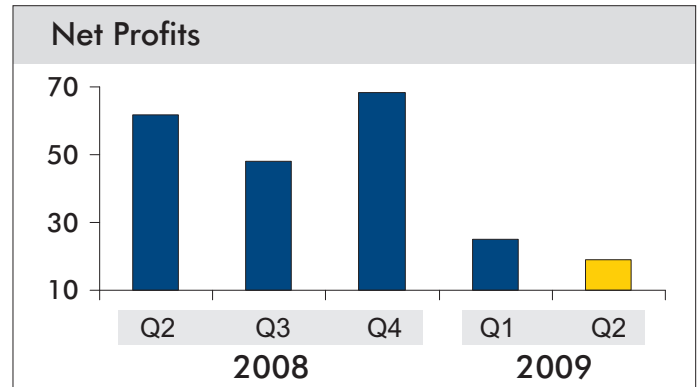


Volume of Sales

Demand conditions are expected to remain subdued during Q2 2009. While about 50% of the respondents anticipate an increase in sales volume, as many as 27% of the respondents expect the sales volume to decline in Q2 2009. The resultant Optimism for Volume of Sales remained unchanged at 23% (this is the lowest value since Q1 2002) compared to the previous quarter. However, the resultant Optimism for Volume of Sales has declined by as much as 40 percentage points as compared to Q2 2008. While demand is expected to be muted across most sectors, the capital goods and services sectors in particular were least optimistic with about 30% of the respondents expecting a decrease in sales volumes.

Net Profits

Profit expectation of the Indian corporates continued to taper further with as many as 28% of the respondents anticipating a fall in their net profits in the forthcoming quarter. Approximately 46% of the respondents expect an increase in profits during Q2 2009, while as many as 26% expect no change in profits. The resultant Optimism for Net Profits declined by around 5 percentage points compared to the previous quarter and stands at 18% (a 27 quarter low). Amongst the sectors, the capital goods sector was least optimistic, with as many as 37% of the respondents from this sector expecting a decrease in net profits during Q2 2009.

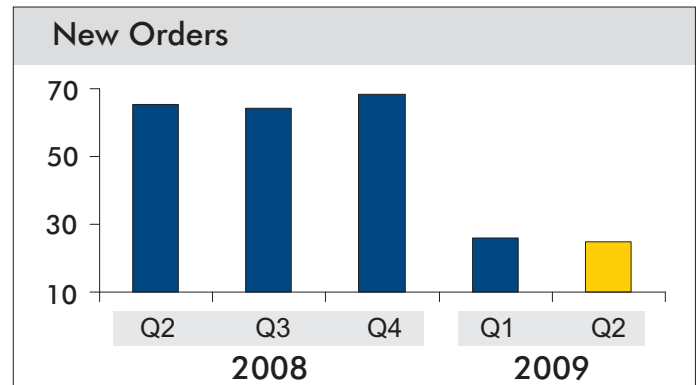


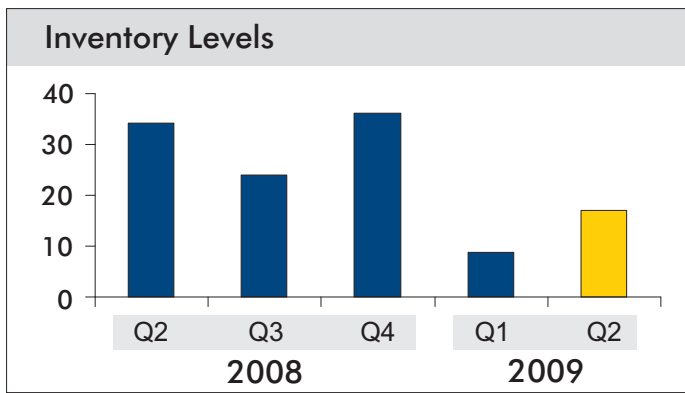
Selling Prices

With moderating demand conditions, lowering input costs and the extension of excise duty cuts beyond 31-Mar-09, as many as 78% of the respondents expect the selling prices of their products to decline or remain unchanged in Q2 2009. While about 22% of the respondents expect selling prices of their products to increase, about 26% expect to witness a decline in their selling prices during Q2 2009. The resultant Optimism for Selling Prices stands at -4%, the lowest value registered since Q1 2002. The capital goods sector was least optimistic about this parameter with about 43% of the respondents from this segment expecting a decrease in prices.

New Orders

Approximately 52% of the respondents expect their order book position to improve, while around 27% anticipate a decrease in the number of new orders during Q2 2009. The resultant Optimism for New Orders stands at 25% (a 27 quarter low) marginally lower compared to 26% in the previous quarter. The services sector was least optimistic with as many as 31% of the respondents from this segment expecting a decrease in new orders placed during Q2 2009. The intermediate goods sector was relatively more optimistic with around 70% of respondents expecting an increase in new orders placed during Q2 2009.



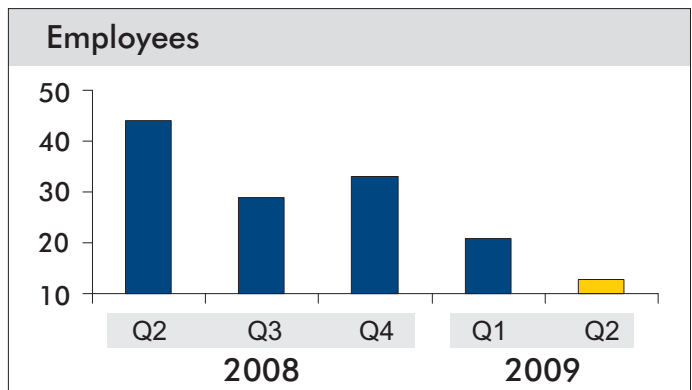


Inventory Levels

While about 34% of the respondents expect their level of stock to increase, around 48% expect to witness no change in their inventory levels during the Apr-Jun 09 quarter. Approximately 18% expect their level of stock to decline during Q2 2009 as compared 22% during the previous quarter. The resultant Optimism for Inventory Levels stands at 16% an increase of around 7 percentage points as compared to Q1 2009. The intermediate goods segment was the least optimistic with around 28% of the respondents expecting a decrease in inventory levels during Q2 2009.

Employees

The majority of respondents anticipate no change in the size of the workforce employed during Q2 2009. Approximately 65% of the respondents intend to keep the number of employees unchanged. While 24% of the respondents expect an increase in the number of employees, 11% expect a decline. The resultant Optimism for Employees stands at 13% for the Apr-Jun 09 quarter, a decrease of around 8 percentage points as compared with the previous quarter. Among the sectors, the capital goods and consumer non durables sectors were least optimistic with around 15% of the respondents from these sectors expecting a decrease in number of employees.



Decide with Confidence

For your free copy of the Business Optimism Index, write to :

Yashika Singh

Dun & Bradstreet Information Services India Pvt Ltd

ICC Chambers, Saki Vihar Road, Powai, Mumbai 400 072

Tel : 91-22-28574190 / 92 / 94

Fax : 91-22-28572060

<http://www.dnb.com>

email: eag@mail.dnb.co.in

For private circulation only

Copyright Dun & Bradstreet

Reproduction and transmission in any form without prior permission is prohibited. All rights reserved.

While Dun & Bradstreet endeavours to ensure accuracy of information contained in this publication, it does not accept any responsibility for any loss or damage to any person resulting from reliance on it.