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Dun & Bradstreet Business Optimism Index

India | Q1 2007

January 2007

D&B Business Expectations Survey

Outlook for Q1 2007 - Key Highlights

- Composite Business Optimism Index registers an increase
- Basic goods, capital goods and services sectors most optimistic with regard to future demand conditions
- Respondents expect their order book position to improve for the third consecutive quarter

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 is selected randomly from Dun & Bradstreet's commercial credit information file. The sample selected for the survey includes companies belonging to the basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the service sectors. In short, 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:

1. Net sales
2. Net profits
3. Selling prices
4. New orders
5. Inventories
6. 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 changes from the previous quarter.

Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index in 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. The D&B Optimism Index has been widely appreciated by business decision makers. We trust that you too will find it 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 2007

India's business environment remains upbeat and optimism is expected to continue into 2007. The Business Expectations Survey for Q1 2007 was conducted in Dec 06, at a time when India Inc hoped to end the calendar year on a positive note. Market sentiment remained upbeat with the BSE Sensex scaling record highs, drawing support from the strong foreign fund flows into the domestic stock market. The Sensex has risen by approximately 10% since the last BOI survey conducted in early October.

Expectations of strong third quarter corporate results have also boosted sentiment in the market, as reflected in the high corporate advance tax collections. During the month of Dec 06 (up to 18-Dec-06), collections rose by 46.4% as compared with the year-ago period. Another pointer towards a strong corporate performance is the record mergers and acquisitions by Indian companies, estimated at close to US\$ 24 bn during 2006. Inward FDI in equity is expected to cross US\$ 11 bn in FY07.

On the macro economic front, recently released data for the second quarter of FY07 reveal that the Indian economy has maintained its impressive growth performance from the previous quarter. The Indian economy grew by 9.2% during the quarter ended Sep 06 as compared with a growth rate of 8.4% registered during the corresponding period of the previous fiscal. The industrial sector and services sector continued to post strong growth rates; a significant highlight of industrial progress has been the high rate of growth registered by the manufacturing sector. While the industrial sector grew by 10.5% in Q2 FY07, the manufacturing and services sectors grew by 11.9% and 10.7% respectively during the period under review. It is expected that the manufacturing sector will continue to grow at a fast pace; the Ministry of Commerce and Industry expects that the Eleventh Plan target rate of growth of 12% in manufacturing will be achieved during the Tenth Plan period itself.

Echoing the positive sentiment, the Composite Business Optimism Index for Q1 2007 improved by 9.8% to 194.6, as compared to the previous quarter. On a year-on-year basis, the increase was 16%. Based on the responses received, it is observed that for Q1 2007, five out of the six optimism indices, namely, volume of sales, net profits, selling prices, new orders, and inventory levels have increased over the previous quarter.

Q1 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

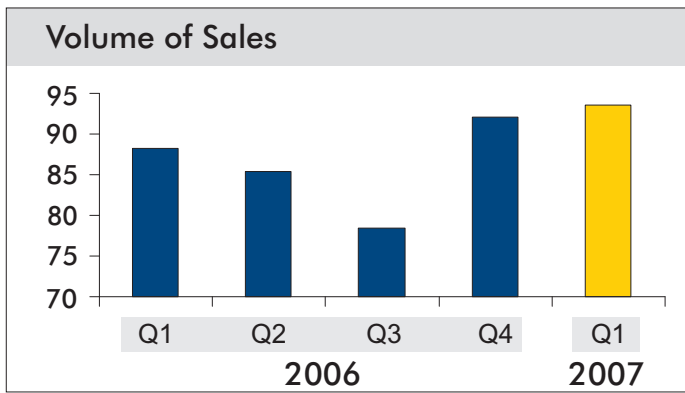
Extract from November Manufacturing ISM Report on Business ® (US Economy)

Economic activity in the manufacturing sector failed to grow in November for the first time following 41 consecutive months of growth, while the overall economy grew for the 61st 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, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "In November, manufacturing activity declined to its lowest level in 42 months as the PMI fell to 49.5 percent. The last time the PMI registered below 50 percent was April 2003 (46.5 percent). New Orders and Production both ended growth cycles at 42 months during November. On the positive side, growth in New Export Orders continued as the weaker dollar continues to fuel that segment."

The manufacturing economy failed to grow in November as the PMI registered 49.5 percent, a decrease of 1.7 percentage points when compared to October's reading of 51.2 percent. This is the lowest reading since April 2003 (46.5 percent) when the PMI was last below the 50 percent level. ISM's New Orders Index registered 48.7 percent in November. The index is 3.4 percentage points lower than the 52.1 percent reported in October. ISM's Production Index registered 48.5 percent in November, 3.4 percentage points lower than the 51.9 percent reported in October. ISM's Employment Index registered 49.2 percent in November, a decrease of 1.6 percentage points when compared to October's reading of 50.8 percent.

Manufacturers' inventories contracted at a slower rate in November as ISM's Inventories Index registered 49.7 percent, a 0.3 percentage point increase when compared to October's reading of 49.4 percent. The six industries reporting higher inventories in November are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Primary Metals; Food, Beverage & Tobacco Products; Paper Products; and Chemical Products.

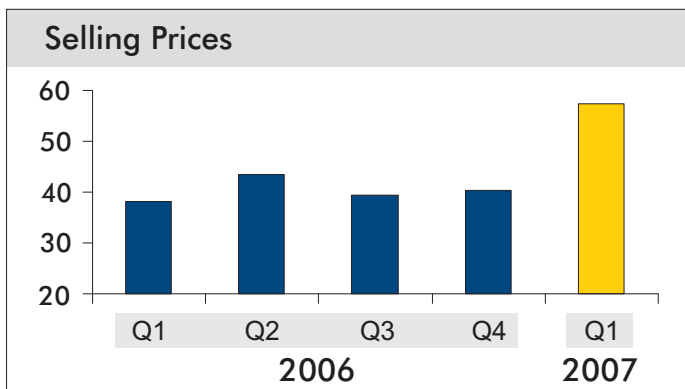
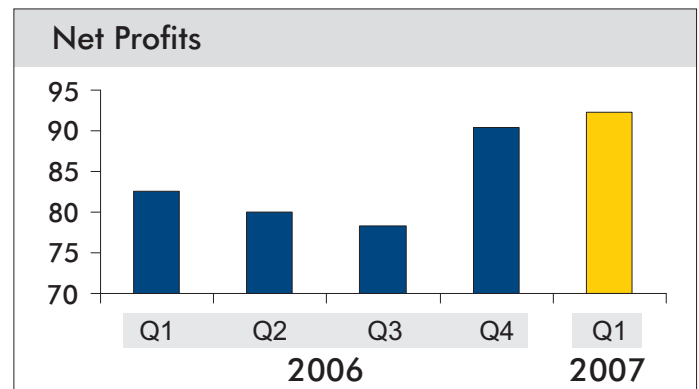


Volume of Sales

The business community appears very optimistic with regard to their expectations of sales volumes in Q1 2007. About 95% of the respondents surveyed expect an increase in sales during the quarter under review. Approximately 3% of respondents do not expect to witness any change in the volume of sales and just 2% of the respondents expect their sales volumes to decline. The resultant Optimism Index for the Volume of Sales parameter stands at 93%. The basic goods, capital goods and services sectors are the most optimistic with regard to future demand conditions.

Net Profits

The survey results reveal that the corporate sector is also bullish on profitability for the Jan-Mar 07 quarter. While the percentage of respondents that expect an increase in net profits stands at 94%, a marginal 1% expects a decline in net profits and 5% expect net profits to remain unchanged. The resultant Optimism Index with regard to the Net Profits parameter stands at 93%. The basic goods, capital goods and intermediate goods sectors were the most optimistic amongst the sectors surveyed, while the consumer non-durables sector was relatively less optimistic on the same.

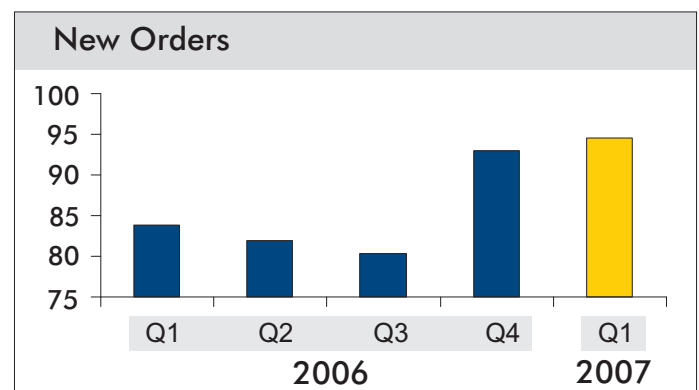


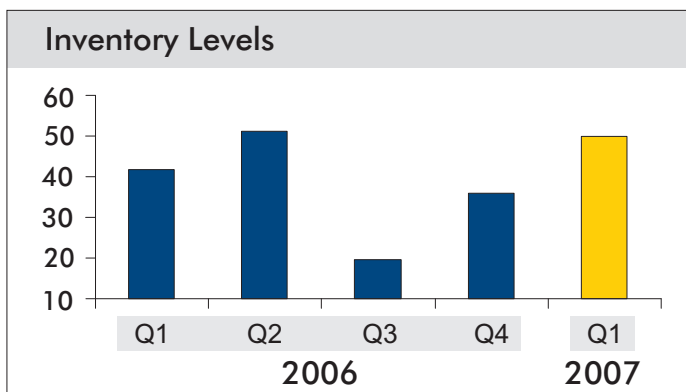
Selling Prices

Around 61% of the total respondents surveyed expect selling prices to increase in the forthcoming quarter. Further, approximately 35% of the respondents were of the view that prices would remain unchanged during Q1 2007 while 4% of the respondents foresee a reduction in selling prices. The resultant Optimism Index for Selling Prices stands at 57%. Amongst the sectors, the consumer durables, capital goods and intermediate goods sectors were more optimistic while the consumer non-durables sector was less optimistic with regard to this parameter.

New Orders

For the third consecutive quarter, respondents have shown high optimism on the New Orders parameter. 96% of the respondents surveyed expect an improvement in their order book position, just 1% of the respondents surveyed expect to witness a decline in new orders placed while the remaining 3% expect no change in their order book position. The resultant Optimism Index for the New Orders parameter stands at 95%. The basic goods, capital goods, consumer durables and services sectors were highly optimistic with regard to this parameter.



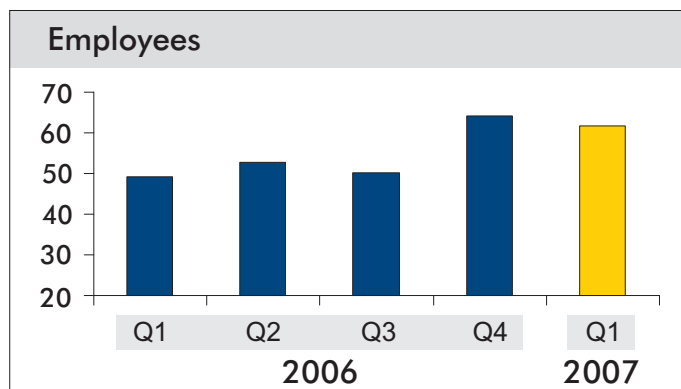


Inventory Levels

53% of the respondents surveyed expect an increase in inventory levels in Q1 2007, while 3% expect to witness a decline in inventory levels. Around 44% of the respondents were of the view that their inventory levels would remain unchanged. The resultant Optimism Index for the Inventory Levels parameter stands at 50%. A sizeable portion of respondents in the consumer durables sector anticipate a rise in inventory levels while the basic goods and intermediate goods sectors were the least optimistic about an increase in inventory levels.

Employees

For the Jan-Mar 07 quarter, about 63% of the respondents surveyed expect to witness an increase in employee levels, 35% of the respondents anticipate their staff strength to remain unchanged and 2% expect a decrease in employee levels. The resultant Optimism Index for Employees stood at 61%. The services and capital goods sectors were the most optimistic while the intermediate goods sector was the least optimistic with regard to this parameter.



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