



Business Optimism Index

Q4 2002

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 include companies belonging to basic, capital goods, intermediate goods, consumer durables, consumer non-durables and service sector. 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 is introducing 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.

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 Q4 2002

The Business Expectation Survey for Q4 2002 was conducted in September 2002 amid good

news from most economic quarters. Drought concerns, which had engulfed the economy in the early monsoon period, were also partially alleviated by good rains in the month of August.

With an impressive GDP growth of 6% in Apr-Jun 02, India has become one of the fastest growing economies in the world. The industrial sector has been showing steady improvement in the current year, after the dismal show of last fiscal. The Index of Industrial Production grew by 6.4% in Jul 02, which is a 20-month high.

Infrastructure activities also seem to have picked up, with the core sector recording an impressive growth of 6.7% in the first five months of the current fiscal, compared to a meagre 1% in the year-ago period.

External sector is echoing the positive signals coming from the domestic economy. India has managed a healthy export growth of 13.4% in Apr-Aug 02, in spite of the gloom surrounding the global economy. Aided by lower trade deficit and healthy software exports, the country has recorded a current account surplus in the first quarter of the current fiscal.

The cause of worry is the agricultural sector, which has shown a drop of 18.6% in kharif grain output, the worst performance of kharif crops in 13 years. However, the impact of poor rains on kharif crops output could be partially offset in case of a good rabi harvest.

The Government's decision to delay the disinvestment of the State-owned refineries sent

a wrong signal to the business community. However, the damage has been undone to some extent by the Prime Minister's reassurance of his Government's commitment to the privatisation programme.

S&P's downgrade of India's local currency credit rating to junk status was ignored by the markets and the business community as it was based on the old concern of poor fiscal health of the country.

Fortunately, the terrorist attack on a temple in Gujarat did not lead to any communal violence as was feared. Though there were instances of violence in Jammu & Kashmir, the state elections were completed with a reasonable percentage of polling.

The recovery of economic indicators has resulted in the Business Optimism Index improving. The Q4 2002 survey reveals improvement in the Composite Business Optimism Index to 103.3 from 102.4 in the previous quarter. Five of the six optimism indices, that is, Net Sales, Net Profits, New Orders, Inventory Levels and Employees have recorded an improvement, while the Optimism Index for Selling Prices has remained at the same level.

Q4 2002 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed in the following pages.

Extract From IMF World Economic Outlook September 2002

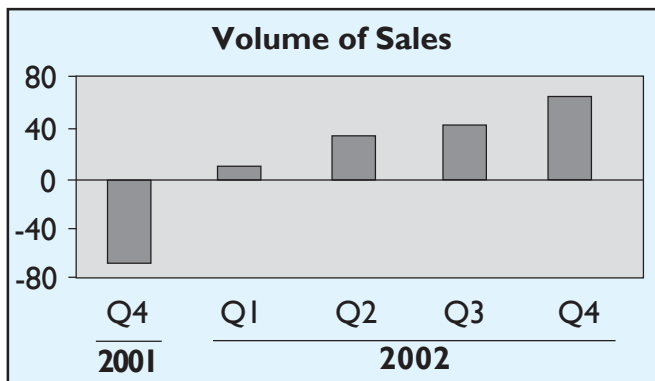
Emerging Markets in Asia: Consolidating the Recovery

In emerging markets in Asia, activity has picked up markedly since the beginning of the year, with industrial production and exports rebounding in response to the global upturn and the improvement in the IT sector. With second quarter data continuing to exceed expectations, and signs of a broadening pickup in domestic demand, aided by supporting macroeconomic policies, regional GDP growth is projected to increase to 6% in 2002 and to remain at that level in 2003. However, the outlook remains highly dependent on external developments, including the possibility of a slower-than-expected recovery in the United States and Europe, and a loss of momentum in the IT sector. Asia is also relatively vulnerable to higher oil prices, were the security situation in the Middle East to deteriorate.

Outlook for India

In India, a cyclical recovery is now under way, although agriculture has been negatively affected by a poor

monsoon and the regional security situation and higher oil prices are sources of risk. Inflation remains moderate and the external position is comfortable. However, trend growth has declined since the mid-1990s as the benefits of earlier structural reform have faded. With the fiscal deficit among the highest in the world, fiscal consolidation has become urgent, and pending fiscal responsibility legislation offers an opportunity to set out a clear and explicit medium-term fiscal consolidation path. Recent efforts to strengthen state finances are welcome, but the FY 2002/03 budget envisages only modest deficit reduction, and even this may be difficult to achieve given relatively optimistic revenue projections. On the structural side, significant progress has been made in privatisation, more market-based pricing of petroleum products, and interest rate liberalisation. However, a large unfinished agenda remains, including further opening up to trade and foreign investment, removing restrictions on agricultural and industrial activity, and strengthening the financial system.

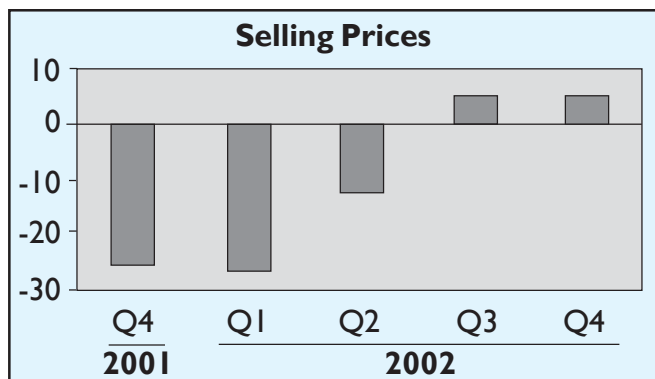
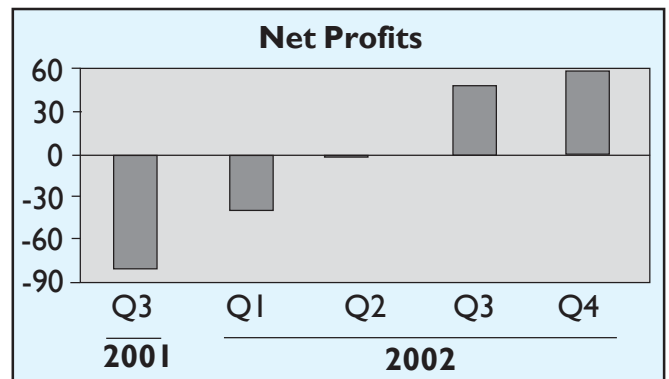


Volume of Sales

A whopping 72% of the respondents expect an improvement in their sales volume for the period Oct-Dec 2002 (Q4 2002). Only 7% expect a decline. The resultant Optimism Index stands at 65%, which is the highest level achieved by this Index since the Business Expectations Survey has been introduced in India. The Optimism Index for Net sales had touched an all-time low of -68% in Q4 2001. However, it re-entered positive territory in Q1 2002 and has been showing sequential improvement since then.

Net Profits

Riding on the 'feel good' factor, Corporate India expects an improvement in net profits in Q4 2002. 68% of respondents expect their net profits to go up whereas only 12% feel that their profitability could come under pressure. The resultant Optimism Index at 56% is again the highest level achieved by the Optimism Index for Net Profits since the inception of the Business Expectations Survey in India. This Index had been languishing in the negative territory for five long quarters from Q2 2001 to Q2 2002 and had entered the positive zone only in the previous quarter (Q3 2002).

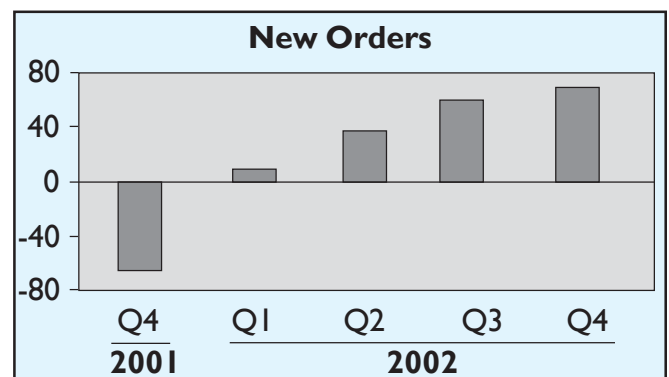


Selling Prices

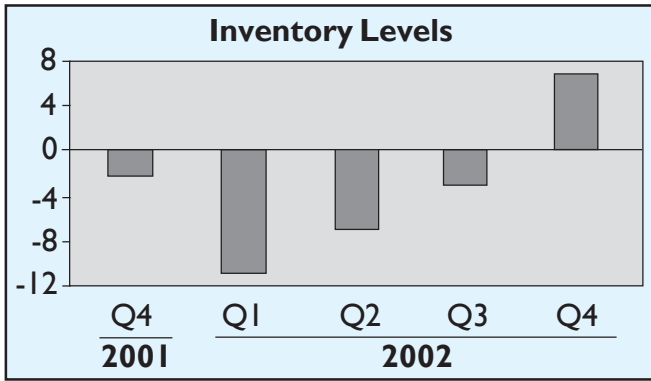
Indian corporate sector appears to be banking on a volume driven growth and is less optimistic about getting higher prices for its products. Majority (78%) of the respondents expect no change in their selling prices in Q4 2002. Only 13% of the respondents expect an increase, while 8% anticipate a decline. The resultant Optimism Index of 5% is at the same level as in the previous quarter (Q3 2002).

New Orders

Signs of pick up in activity are clearly evident from the Optimism Index for New Orders. A large number of respondents (75%) expect their new orders to go up in Q4 2002. Only 7% fear a decline. The resultant Optimism Index at 68% is again an all-time high for this Index. Although the Optimism Index for New Orders has been in positive territory since Q1 2002, the performance of the Index has been distinctly better in the second half of the year compared to the first half.



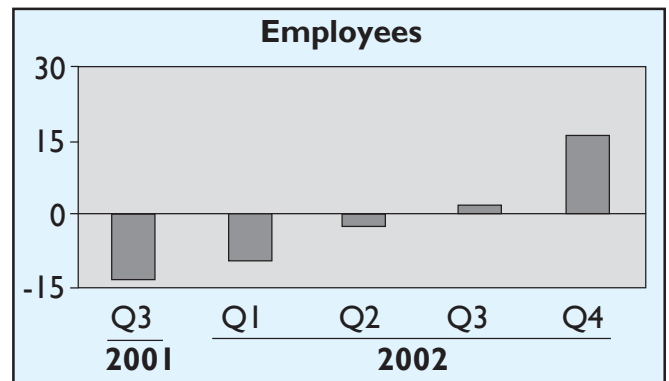
Inventory Levels



After staying in negative territory for a year (from Q4 2001 to Q3 2002), the Optimism Index for Inventory Levels entered the positive zone in Q4 2002. However, a majority of respondents (61%) still expect no change in their inventory levels. 22% of the respondents expect an increase in the level of inventory whereas 15% expect a decline. The resultant Optimism Index at 7% is again the highest level for this Index in the last two years.

Employees

In line with the past quarters, majority (74%) of respondents expect no change in their number of employees. However, job seekers have something to cheer about; 20% of the respondents expect to hire people in the Q4 2002. Only 4% expect to see a fall in their number of employees. The resultant Optimism index at 16% is a remarkable improvement over the 2% recorded in the immediate preceding quarter (Q3 2002).



For further details about the Business Optimism Index, write to :

Kaushal Sampat
Dun & Bradstreet Information Services India Pvt Ltd
 ICC Chambers
 Saki Vihar Road
 Powai, Mumbai 400 072
 Tel : 91-22-8574190 / 92 / 94
 Fax : 91-22-8572060
<http://www.dnb.com>
 email: dbindia@vsnl.com

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