Dun & Bradstreet

Business Optimism Index

Q1 2003

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 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.

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 2003

The Business Expectation Survey for Q1 2003 was conducted in December 2002, when the Indian economy was stable with encouraging performance by the economic indicators and no untoward incident on the political front.

The economy continued its forward march, recording a GDP growth of 5.8% in Jul-Sep 02 quarter, on top of 6% growth recorded in Apr-Jun 02. The growth number is impressive considering that it has been achieved in spite of the agricultural sector remaining stagnant. The industrial and services sectors retained the momentum, growing by 6.3% and 7.6% respectively. Core sector, which is a reflection of the infrastructure activities in the economy, has also been doing well in the current fiscal. It grew by 6.4% in Apr-Nov 02, as against a poor 1.3% in the year-ago period.

With merchandise exports growing by around 16% in Apr-Nov 02, the external sector also had reasons to cheer. Software exports also showed impressive growth resulting in the country recording a current account surplus for the first six months of the current fiscal as against a deficit in the year-ago period. Rising forex reserves, benign inflation and soft interest rates were the other positive indicators for the economy.

On the political front, the clean sweep of BJP in the Gujarat elections, accompanied by victory in all three assembly by-elections in Rajasthan and Godda Lok Sabha seat in Jharkand, augured well for the stability of the ruling NDA alliance at the centre.

The Government's statement ruling out the possibility of accepting the Kelkar panel's recommendations in toto also boosted optimism to some extent. Optimism has also been rising because of high expectations from the Union Budget, which is round the corner. The threat of US-Iraq conflict is unlikely to affect the economy, except for a further spike in crude oil prices, which might exert an upward pressure on inflation.

However, agricultural sector remains a cause of worry this fiscal. The drought has adversely affected the Kharif crop, the impact of which will also be reflected in the third quarter GDP. Though the impact of drought on Rabi crop is uncertain, the overall outlook for agricultural sector for the entire fiscal certainly looks bleak.

Positive outlook for the economy has resulted in an improvement in the Business Optimism Index. The Q1 2003 survey reveals improvement in the Composite Business Optimism Index to 118.6 from 103.3 in the previous quarter. All the six optimism indices, that is, Net Sales, Net Profits, Selling Price, New Orders, Inventory Levels and Employees have recorded an improvement.

Q1 2003 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed in the following pages.

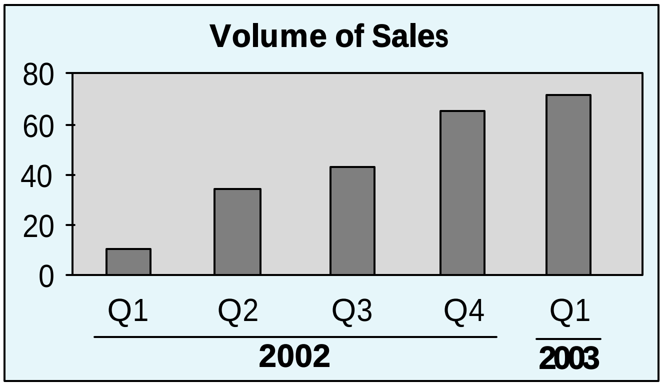
Extract from D&B Business Expectation Survey for Australia

The latest *D&B National Business Expectations Survey,* looking ahead to the first quarter of 2003, shows that expectations for the start of next year remain weak, with most indices falling or remaining static. Profit expectations have now reached a 19-month low, with actual results for the September quarter also revealing that more companies recorded a fall in profits than a rise. For the second month in succession, more employers said they expect to shed, rather than hire new staff in the year ahead. However, capital investment expectations remain relatively strong, with 16% of executives expecting to increase spending and only 1% expecting a decrease.

The survey also revealed that 30 % of companies are cutting profit margins in order to maintain market share. In addition, 40% of executives believe that a second US recession inside 12 months would have a direct negative effect on their business. This comes on the back of the October survey, when 25% of executives said the drought in rural Australia was having a direct negative effect on their business. On the interest rate front, 30% of executives expect bank interest rates for lending to their business to rise in the next six months. If rates do rise, 35% of executives said they would tighten their terms of payment as a result. Furthermore, an increase in the inflation rate would see 58% of executives review their capital expenditure over the next 12 months, up from 4% in April.

The D&B survey shows that sales, profits and inventories expectations all fell three points to a net 17, 2 and -6 per cent respectively. Selling price expectations were unchanged at a net 24, while employment expectations rose by two points to -1 and capital investment by 1 to 15.

Ms Christine Christian, Chief Executive Officer, D&B Australia & New Zealand, said the latest survey was further evidence of slowing growth in 2003. "It would appear that retailers in particular are doing it hard. This sector continues to show a negative performance in actual sales, profits and employment results. It also has a negative outlook for growth in profits, employment and inventories and very weak expectations for growth in sales," she said. Ms Christian said the drought in Australia and the weak international outlook were still of concern to the domestic economy.

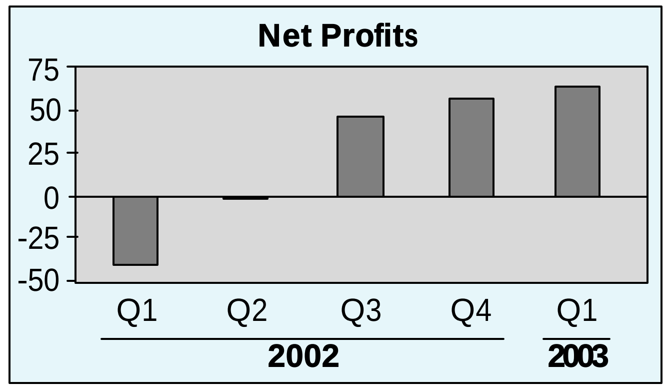


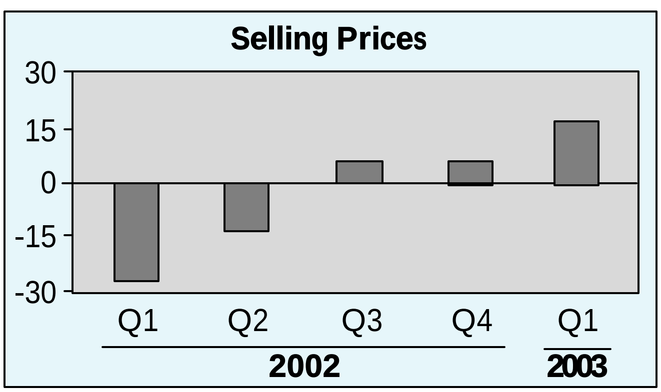
Volume of Sales

Business community appears to be banking on volume driven growth to shore up its bottomline. 78% of the respondents expect an improvement in their volume of sales for the period Jan-Mar 2003 (Q1 2003). Only 7% expect a decline. The resultant Optimism Index for Net Sales at 71% is the highest level recorded by this index since the Business Expectation Survey has been introduced in India. The index had entered the positive territory in Q1 2002 and has been making sequential gains since then.

Net Profits

Higher volume is expected to have a salubrious effect on profitability of firms as well. An overwhelming majority (71%) of the respondents expect their profitability level to improve in the coming quarter (Q1 2003), whereas 9% expect their profitability to decline. The resultant Optimism Index for Net Profits stands at 62%, once again an all-time high for this index, since the inception of the Business Expectation Survey in India. This index had been in the negative territory for five consecutive quarters (Q2 2001-Q2 2002) and had entered the positive zone only in Q3 2002.



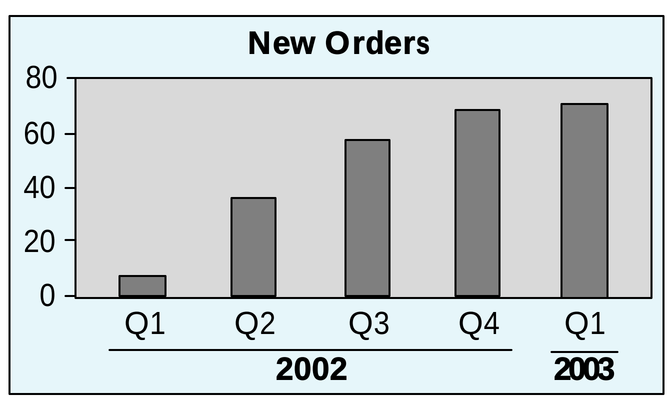


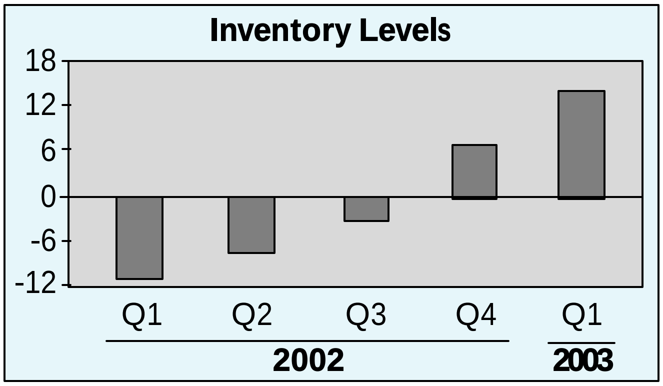
Selling Prices

After a very long wait, a section of corporate India expects to realise more from what it sells. The recessionary environment, which was thwarting all efforts for better price realisation, seems to be finally giving way to better days. Although a majority (66%) of the respondents expect no change in their level of selling prices, a larger number than before (25%) expect an improvement whereas only 9% expect a decline. The resultant Optimism Index for Selling Prices at 16% for Q1 2003 is close to its all-time high of 17% and a remarkable improvement over the 5% recorded in the preceding quarter.

New Orders

That optimism is on a relatively firm footing is apparent from the index of new orders. Majority of the people surveyed (77%) expect their new order position to improve in the first quarter of 2003 and only 6% expect a decline. The Optimism Index for New Orders therefore stands at 71% in Q1 2003, which is once again the highest level for this index since the inception of the survey. The Optimism Index for New Orders had entered the positive territory in Q1 2002 and had made rapid strides in the last four quarters.





Inventory Levels

In line with the past trend, majority of the respondents (64%) expect no change in their level of stock. However, 24% of the people surveyed expect their inventory levels to go up and 10% expect a decline. The resultant Optimism Index for Inventory Levels stands at 14%, which is nevertheless, an improvement over the 7% recorded in Q4 2002.

Employees

Finally, there is something to really cheer about for those seeking employment. India Inc appears to be in a mood to hire in Q1 2003. Although a large majority (69%) of companies have no plans to recruit, around 25% expect to add more people and only 5% have indicated that they might actually retrench. The resultant Optimism Index for Employees stands at 20%, which is the highest level for this index since the Business Expectations Survey started in India.

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 : 91-22-28574190 / 92 / 94
Fax : 91-22-28572060
http://www.dnb.com
email: dbindia@vsnl.com