



Business Optimism Index

Q3 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 Q3 2003

The Business Expectation Survey for Q3 2003 was conducted in Jun 03, when the economic indicators appeared steady and there was no untoward incident on the political front.

After the drought in FY03, the growth of the economy in the current year is largely contingent on good monsoon. Though the south-west monsoon appeared late, its performance in the first month has been quite satisfactory. In Jun 03, the total rainfall recorded has been above normal by 6%. Rainfall has been excess to normal in 30 out of 36 meteorological sub-divisions and deficient to scanty in 6. Good monsoon has brought relief to the corporate sector as a whole, especially to sectors like FMCG and automobiles that rely heavily on rural demand. In fact, the corporate sector had already been on a more or less steady track as reflected by the healthy corporate results in the Jan-Mar 03 quarter. The positive sentiment is also being reflected in the stock markets. The BSE Sensex increased by a huge 13% in little over a month and touched 3,622 by 4-Jul-03. Foreign institutional investors have also turned very bullish about the Indian economy. The net FII investment in both equity and debt markets was US\$ 734.4 mn for Jun 03 and US\$ 2,083.6 mn for the period Jan-Jun 03. This compares very favourably against the total net FII investment of US\$ 763.5 mn in the whole of 2002.

Export earnings have also shown improvement. In the month of May 03, exports grew by 13.5%, better than the 8.7% growth recorded in Apr 03. Healthy inflows have resulted in the forex kitty touching US\$ 82 bn by the end of Jun 03. The Balance of Payment data released for FY03, shows that the country had maintained current account surplus for one more year. Healthy merchandise and software exports had helped the country record current account surplus of US\$ 3,708 mn in FY03 compared to US\$ 782 mn in FY02. Capital account surplus had also increased, resulting in the overall surplus on Balance of Payment account

improving to US\$ 16,980 mn in FY03 from US\$ 11,757 mn in the previous fiscal.

The growth in the index of industrial production was 4.9% in Apr 03 lower than the 7% and 6% growth recorded in Feb 03 and Mar 03. The industrial growth in the first quarter of the current fiscal is expected to be marginally lower because of the impact of poor rabi crop in the previous fiscal. Growth of the six core sectors improved marginally to 4% in May 03 compared to 3.9% in Apr 03. Steel sector continued to perform well, growing at the rate of 9.2% in Apr-May 03 compared to 7.7% in the year-ago period. Cement sector showed a rebound in May 03. The sector grew by an impressive 7.8% in May 03 after a dip of 2.9% in Apr 03.

On the political front too, there was no unfavourable development. In fact, there appeared to be a ray of hope for better Indo-Pak relationship, with both countries showing willingness to restore peace talks.

Positive outlook for the economy has resulted in the Composite Business Optimism Index for Q3 2003 improving by 6.3%. The Composite Business Index for Q3 2003 increased to 126.5 from 119 in Q2 2003. Five of the six optimism indices, that is, Net Sales, Net Profits, New Orders, Inventory Levels and Employees have shown improvement while index for Selling Prices has declined compared to the previous quarter.

Q3 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

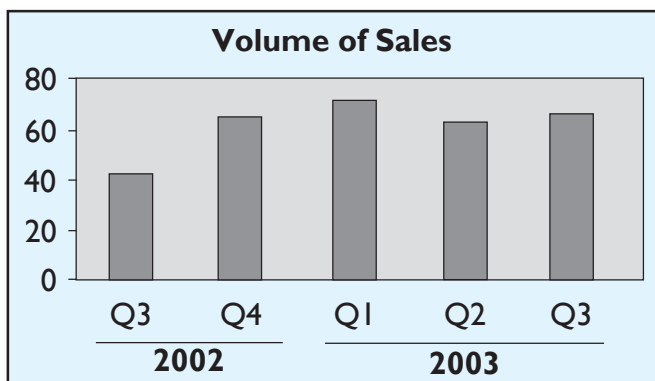
The D&B National Business Expectations Survey, looking ahead to the September quarter 2003, shows that expectations are at their best in 15 months. Capital investment plans are the strongest in three years, but almost 40% of businesses said they would cut back on spending if inflation levels rise. The survey also revealed that more than one in three executives believe the recent rise in the \$A has been good for their business. The end of the war in Iraq, easing drought conditions and lower fuel prices have also had a direct positive effect.

On the taxation front, Ms Christine Christian, Chief Executive Officer D&B Australia & New Zealand, said that Government reforms were high on the agenda for almost all businesses. "The number one tax that businesses want prioritised for Government reform is payroll tax (58%), followed by superannuation tax (16%)," Ms Christian said. "Personal tax and

international tax were equal third on 10.5%, while 5% were 'unsure'."

Ms Christian said that overall, the latest survey shows the outlook for business growth remains relatively strong, particularly in investment, profits and employment. "Profits and employment expectations are the best in 15 months and sales are the best in more than a year. Wholesalers and retailers are really leaping ahead in these areas, following an uncertain start to 2003," Ms Christian said.

The D&B survey shows that sales expectations rose eight points to a net 37% and profits expectations rose seven points to a net 30%. Employees and inventories each rose two points and capital investment one point, while selling prices fell a further two points to a net 26%. Actual company results from the March quarter continued to be well above forecasts.

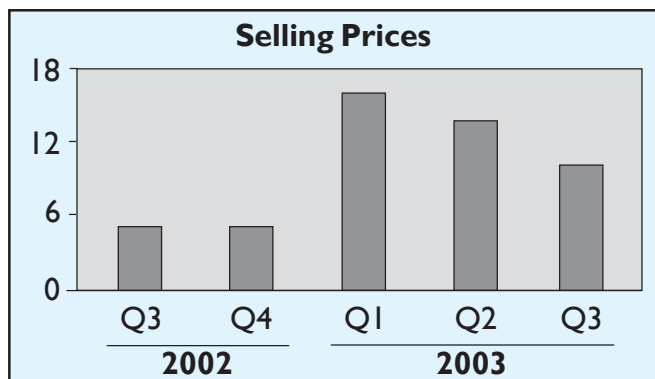
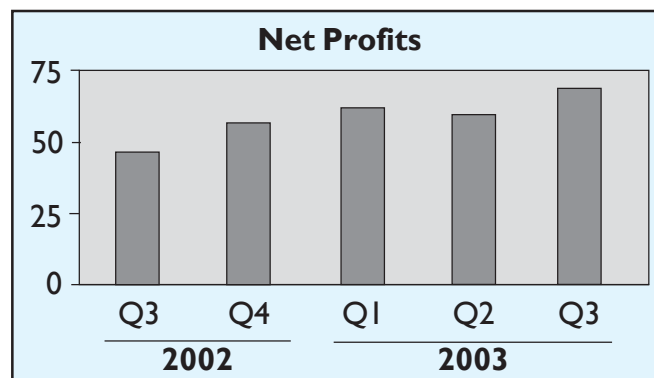


Volume of Sales

The Business community is expecting volume of sales to pick up in the coming quarter. 75% of the respondents expect an improvement in their volume of sales for the period Jul-Sep 2003 (Q3 2003). Only 9% expect a decline. The resultant optimism index for Net Sales at 66% is better than that in the previous quarter. Of all the segments interviewed, manufacturers of capital goods are most optimistic about their volume of sales followed by consumer non-durable producers. The index for Net Sales had been improving continuously since Q1 2002 before recording a temporary dip in the previous quarter.

Net Profits

Optimism about sales volume is reflected in the profitability expectations of firms. An overwhelming 76% of the respondents expect their profitability to improve in Q3 2003, while 8% expect it to decline. The resultant index for Net Profits at 68% is the highest level recorded by this index since the inception of Business Expectation Survey in India. Segment-wise break up shows that the manufacturers of capital goods are most optimistic about their profits, while the intermediate and basic good producers are least optimistic.

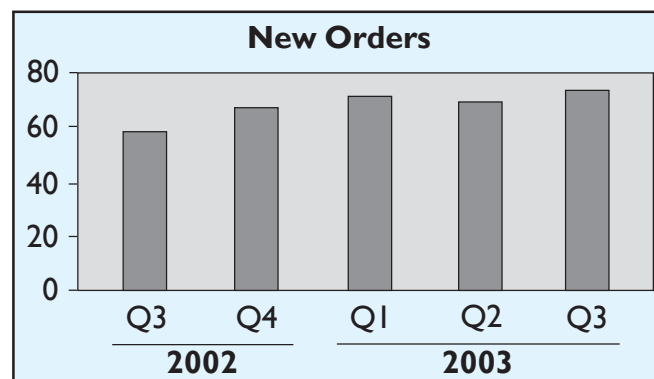


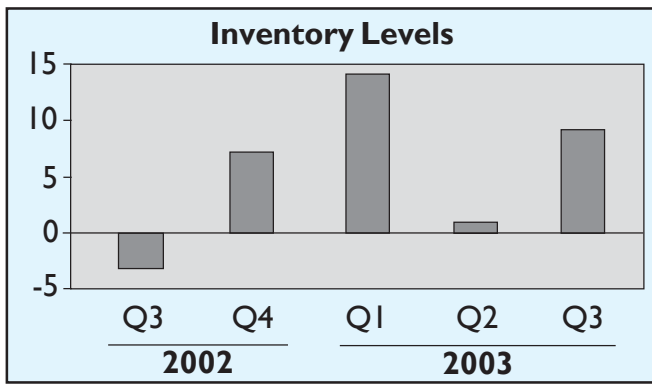
Selling Prices

While the business community is optimistic about the volume of sales and net profits, the same optimism is not being reflected in the pricing power. A large majority of the respondents (61%) expect no change in their selling price in Q3 2003. 24% of the respondents expect their selling prices to increase, while 14% expect it to decrease. The resultant index for Selling Prices therefore stands at 10% lower than the 14% recorded in the previous quarter. This index had improved significantly in the first quarter for 2003 but has been declining since then.

New Orders

That optimism is on a relatively firm footing is apparent from the index of New Orders. Majority of the people surveyed (75%) expect their new order position to improve in the third quarter of 2003. Only a minuscule 2% expect it to decline. The resultant index for New Orders at 73% is an all-time high for this index. Tracing the index for Net Sales, the index of New Orders is also highest for capital good and consumer non-durable manufacturers. The intermediate good manufacturers are least optimistic about their new order position.



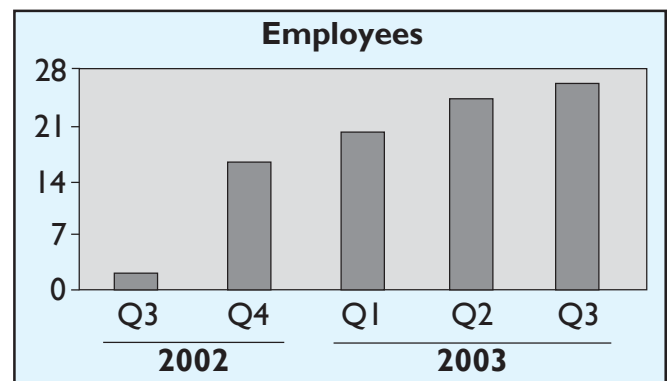


Inventory Levels

In line with the past trend, majority of the respondents (41%) expect no change in their level of stocks. However, 33% of the respondents expect their inventory levels to go up in Jul-Sep 03 and 24% expect it to decline. The resultant index for Inventory Levels stands at 9%, a significant increase over the 1% recorded in Q2 2003. This index had declined sharply in Q2 2003, after recording increases in the previous two quarters.

Employees

The index for Employees continued to increase in Q3 2003. Although 55% of the respondents expect no change in the number of employees, 35% of the respondents expect to hire people in Jul-Sep 03. 9% of those surveyed plan to retrench in the third quarter. The resultant index for Employee at 26% is the highest level recorded by this index, since the inception of BOI in India.



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