



Business Optimism Index

Q4 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 Q4 2003

The Business Expectation Survey for Q4 2003 was conducted in Sep 03. By then, the satisfactory performance of monsoon 2003 was well recognised and the stock markets were on an ascent amidst a flood of positive economic news. There were a couple of negative events from the viewpoint of business sentiment around this period: the Mumbai bomb blasts towards the end of Aug 03 and the setback to oil sector disinvestment because of a court decision. But the sentiment continued to be driven primarily

by indicators signaling a consolidation of economic recovery.

Indian economy has recorded a growth rate of 5.7% in Q2 2003, compared to 5.3% in the year-ago period. Both industry and services sectors have accelerated during this period. In the coming quarters, GDP growth is expected to surge further, riding on a strong agricultural performance. The kharif season food grain output has zoomed by 19.9% to 108.45 mn tonnes. Several agencies, including the Finance Ministry, have raised their forecasts for India's growth in FY04.

The upswing in the business cycle is also reflected in rising non-oil imports, robust growth in sales of commercial vehicles and railway freight traffic, continued pick-up in the manufacturing price index, increasing capital goods output and imports; and healthy growth in the index of industrial production (IIP). The inflation rate stood at 5% as of 27-Sep-03, partly reflecting the upward trend in prices of manufactured products. Thanks to comfortable liquidity position, the yields maintained their southward movement and fell to 5.06% (10 years maturity) on 09-Oct-03 from 5.73% at end Jun 03. There is now a strong expectation of a cut in the benchmark interest rate in RBI's forthcoming review of the monetary and credit policy.

Even though India's current account slipped into a deficit in Apr-Jun 03, putting an end to the six-quarter stretch of surpluses, it is far from a concern in the backdrop of growing foreign exchange reserves and strong capital inflows. In fact, the RBI seems to be discouraging certain kinds of capital inflows in the recent months. The rupee has been gaining

strength - a phenomenon also linked to the weakening of dollar globally - and closed at a 38-month high of Rs 45.27/US\$ on 09-Oct-03. The strength of the rupee has been partly responsible for a slowdown in export growth to 5% in Jul-Aug 03 from 11.1% in Apr-Jun 03.

The stock market sentiment remained bullish in the recent months with the BSE Sensex zooming from 3,607 at the end of Jun 03 to 4,769 on 10-Oct-03, a rally of over 32%. The price-earnings ratio for the index has improved from 14.7 to 17.1 during the same period. Apart from the monsoon effect, the market sentiment was impacted positively by a growing clout of the 'India story', which was also reflected in buoyant inflows from foreign institutional investors. There seems to be a distinct improvement in India's perception as an attractive destination for global outsourcing in manufacturing besides its proven success in software.

Reflecting the healthy economic scenario, the Composite Business Optimism Index for Q4 2003 improved by 4.5% to 132.2 from 126.5 in the previous quarter. This is the sixth consecutive gain for the index. Four out of six optimism indices, namely volume of sales, net profit, new orders and inventory improved for Q4 2003 with the first three at their all-time peaks. The index for selling prices remained stagnant while the optimism index for employees witnessed a decline.

Q4 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 IMF World Economic Outlook, Sep 03

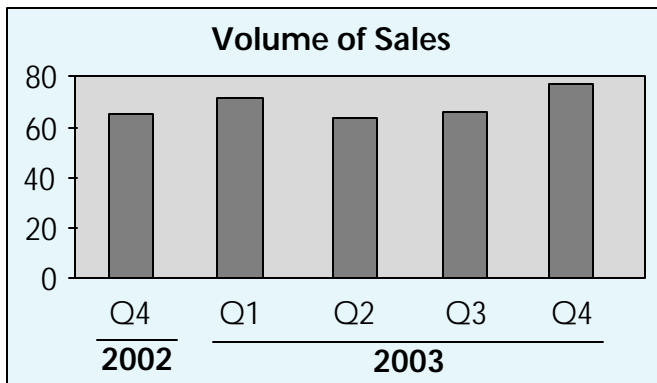
Following a series of adverse shocks in the first half of 2003, there are now increasing signs of a renewed recovery. But with the pace and robustness of the recovery still unclear, and inflationary pressures low, monetary policies should remain accommodative for the time being. The widening global imbalances, and continuing dependence of global growth on the United States, underscore the need for an acceleration of structural reforms in many countries, along with measures to rein in the US budget deficit over the medium term and, in some cases, a gradual move to greater exchange rate flexibility.

As recent developments in financial markets underscore, it is possible that growth may pick up more quickly than currently expected, particularly in the US. The possibility that oil prices could be lower than expected in 2004 and beyond is also a potential upside risk to global activity.

In Western Europe, although the worst may now be over, the short-term regional outlook still appears

quite weak. Although risks have become more balanced in Japan, the outlook remains clouded by entrenched deflation and by persistent weaknesses in corporate, financial, and public sector balance sheets. A tentative recovery appears to be emerging in much of Latin America, although growth is highly differentiated across the region. In 2003, African GDP growth is projected to edge up slightly, with the expansionary effects of global recovery and increasing nonfuel commodity prices continuing to be offset by adverse local factors.

Despite the slowdown since early 2003, the Asia-Pacific countries are again set to be the world's fastest growing region this year and growth is expected to pick up further in 2004. In the present conjuncture, however, with the US dollar's decline necessitating a rebalancing of global demand, the need to boost the domestic component of growth in Asia is even more pressing.

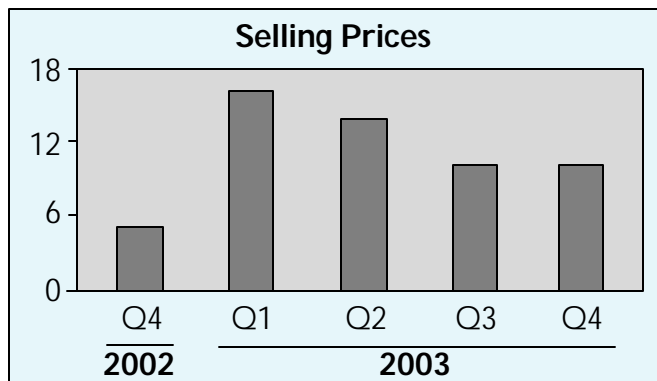
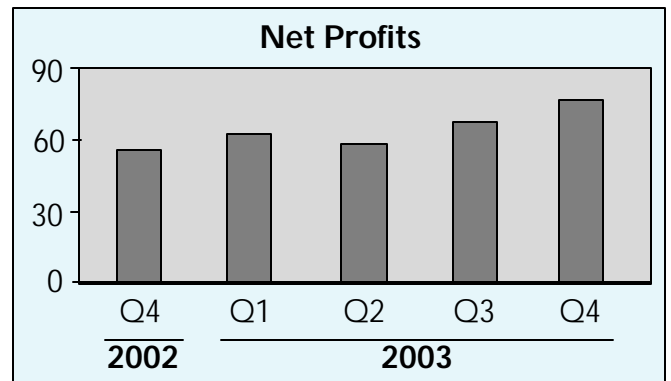


Volume of Sales

Demand conditions are expected to be strong in Q4 2003 with 83% respondents expecting an increase in volume of sales, compared to 75% in the previous quarter. While 11% respondents expect sales to remain stagnant in the coming quarter, only 6% anticipate a decline in sales. The Optimism Index for Net Sales stands at 77%, which is its highest level since the inception of BOI in India. This index has recorded the second consecutive gain. Respondents from the consumer non-durables segment are the most optimistic about the sales performance next quarter, followed by intermediate goods and consumer durables segments.

Net Profits

The bullish outlook on the topline growth has been retained with respect to the bottomline growth too. A whopping 83% of the respondents expect their net profit level to go up in the coming quarter. Only 6% expect a decline in net profit. The Optimism Index for Net Profit for Q4 2003 stands at 77%, which is again the highest level since the inception of the survey. Companies in the consumer non-durables, intermediate goods and consumer durables segments are more optimistic about their net profit in the coming quarter.



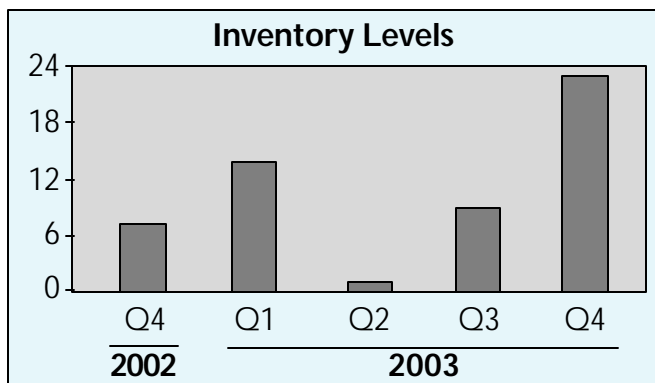
Selling Prices

Though the outlook on profitability is positive, the respondents are not quite optimistic with regard to the selling prices. Nearly three-fifth of the respondents expect no change in their selling price in the coming quarter. While one-fourth of them expect prices to go up, 15% respondents anticipate a decline in price. The Optimism Index for Selling Prices for Q4 2003 stands at 10%, same as in the previous round. The index had dipped in Q2 and Q3 2003. The services sector is relatively more bullish on its pricing power in the coming quarter. In the basic goods segment, the pessimists outnumber the optimists on this aspect.

New Orders

Indian industry is looking forward to an improvement in its order books in the last quarter of 2003. The Optimism Index for New Orders has touched its highest level at 81% for Q4 2003 reinforcing the respondents' optimism with regard to the demand conditions. The index has been moving up since the last quarter of 2001, except for a marginal dip in Q2 of 2003. While 84% respondents expect their new order position to improve in the coming quarter, only 3% expect a decrease in new orders. The optimism about new orders is more among the consumer goods companies.



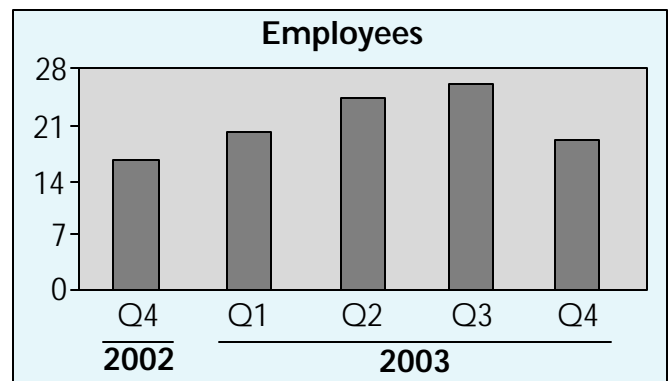


Inventory Levels

The Optimism Index for Inventory Levels has increased sharply to 23% for Q4 2003 from 9% in the previous quarter. It was the second consecutive gain for the index. The increase for Q4 2003 was largely a result of the decline in the proportion of respondents expecting inventory levels to fall. While 32% respondents expect higher inventory in the coming quarter, 9% expect a lower inventory (compared to 24% in the previous round). The capital goods and basic goods segments are the most optimistic on this parameter.

Employees

The optimism witnessed with respect to the other parameters is not seen in case of the manpower requirement expectations. The Optimism Index for Employees declined to 19% for Q4 2003 from 26% in the previous quarter. It was the first decline of the index after four consecutive quarters. While 63% of the respondents expect their number of employees to remain constant in the coming quarter, 28% expect the number of employees to go up. The consumer non-durables segment is the most optimistic on this parameter, followed by the services sector.



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