



Business Optimism Index

Q2 2004

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 Q2 2004

The Business Expectation Survey for Q2 2004 was conducted in Mar 04 when the economy was gearing up for the forthcoming general elections. The feel-good factor on the economic front continued with the persistence of a robust

trend in economic indicators. The advance estimate of GDP released in Feb 04 pegged the growth rate of the Indian economy at 8.1% during FY04, the highest in 15 years. Industrial growth also maintained its momentum with a 6.5% growth in the index of industrial production (IIP) during Apr-Jan 04, buoyed by 7.1% growth in the manufacturing sector. Exports, which account for about one-tenth of GDP, recorded an impressive growth of 34.9% in Feb 04 and a cumulative growth of 14.8% in Apr-Feb 04.

While the flood of positive economic data releases is reassuring from the perspective of the continuation of economic recovery, the stock markets appear to have already discounted the 'India Shining' story to some extent in the previous quarter. Partly because of liquidity pressures related to the bunched offering of public issues, the BSE Sensex has been in a correction mode despite positive economic data. The Sensex lost 10.5 % during Jan-Mar 04.

In Mar 04, the RBI let its control on the appreciation of rupee ease, perhaps because of the depletion of its armoury in terms of sterilising the foreign exchange inflows. The rupee surged from 45.29 in the middle of Mar 04 to 43.43 on 02-Apr-04 and has gained 4.9% since the beginning of the year. Inflation rate also continued to be a cause of concern during the last quarter. Though it fell to 4.3% as on 20-Mar-04, the inflation rate took much

longer to soften than was expected by most analysts.

Business sentiment, though remaining by and large upbeat, seems to have eased from the euphoria that the feel-good factor had generated just a quarter ago. The uncertainty related to the election outcome and the possible impact of rupee's ascent on booming exports might be also weighing on business sentiment. Having already digested the 'India Shining' story, business confidence might now need some other triggers for its next surge. The outcome of the elections and indications about the monsoon could be the next events to watch out for.

The Composite Business Optimism Index for Q2 2004 came off its peak recorded in the previous quarter and fell 6.4% to 139.3. Despite the fall, which incidentally has come after an upward streak for seven consecutive quarters, the Composite Business Optimism Index is still 5.4% higher than its level in Q4 2003. All six optimism indices, namely volume of sales, net profits, selling prices, new orders, inventory and employees, declined in Q2 2004 compared to the previous quarter.

Q2 2004 expectations for each of the six parameters and their comparison with those of the previous quarters are discussed in 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 March Manufacturing ISM Report On Business® (US Economy)

Economic activity in the manufacturing sector grew in March for the 10th consecutive month, while the overall economy grew for the 29th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

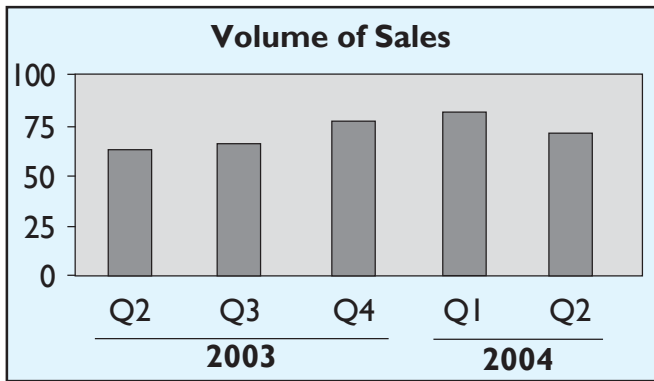
The report was issued by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee and group director, strategic sourcing and procurement, Georgia-Pacific Corporation. "The manufacturing sector had another good month in March as the PMI has now been above the 60 percent mark for five consecutive months. Both New Orders and Production remain strong and have significant momentum going into the second quarter".

ISM's Backlog of Orders Index indicates that order backlogs increased in March, and the Employment Index grew for the fifth consecutive month. ISM's Prices Index indicates that manufacturers once again experienced higher prices in their purchases, and at

the highest rate since January 1995. The New Export Orders and Import Indexes continue to grow, with New Export Orders accelerating significantly during the month.

ISM's PMI registered 62.5 percent in March, an increase of 1.1 percentage points when compared to 61.4 percent in February. ISM's New Orders Index declined 0.7 percentage point from 66.4 percent in February to 65.7 percent in March. ISM's Production Index increased 1.6 percentage points from 63.9 percent in February to 65.5 percent in March. The ISM Employment Index is at 57 percent for March, an increase of 0.7 percentage point when compared to the 56.3 percent reported in February. ISM's Prices Index in March is 86 percent, 4.5 percentage points higher than the 81.5 percent reported in February.

"The first quarter was very strong for the manufacturing sector and the economy overall. Our survey respondents generally indicate that business is quite strong," said Ore.

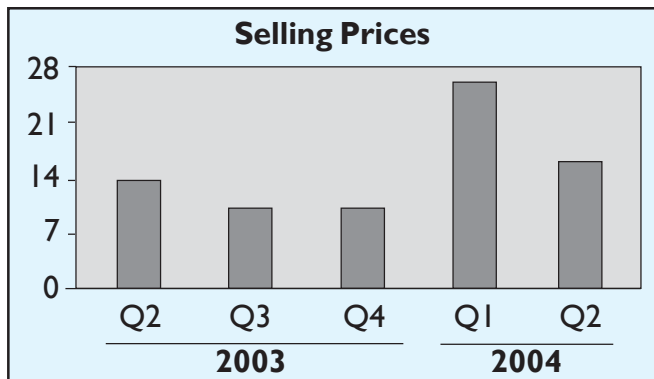
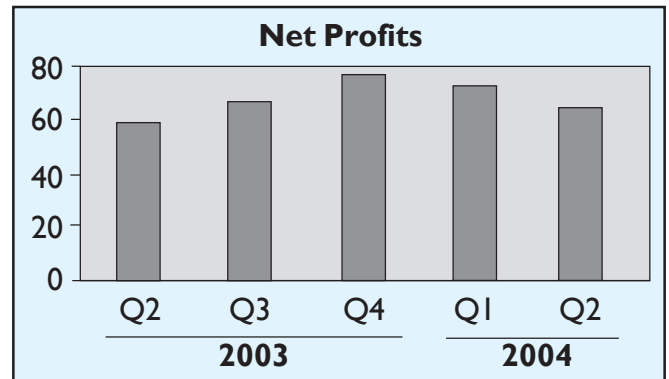


Volume of Sales

The corporate sector has moderated its expectations of demand growth to some extent. But still, by and large, respondents remain bullish about sales prospects. Nearly 83% of the respondents expect sales volume to increase in Apr-Jun 04 while only a little over one-tenth expect a decline in sales. The resultant Optimism Index for Net Sales stands at 72%, as compared to 82% in the previous quarter. The intermediate goods sector is the most optimistic about the prospect for sales volume, followed by consumer non-durable goods and basic goods sectors. Consumer durables sector is the least optimistic about topline growth.

Net Profits

While the corporate sector has witnessed improvement in bottom lines in FY04, expectations about profitability are getting moderated. The Optimism Index for Net Profits declined for the second consecutive quarter to 65% for Q2 2004. While 80% of the respondents expect their net profits to go up in the forthcoming quarter, 15% expect profits to fall. The two segments of the consumer goods sector are showing substantially different profitability expectations. While consumer non-durable companies are the most optimistic about profitability conditions, followed by the services and capital goods sectors, consumer durable companies are the least optimistic.

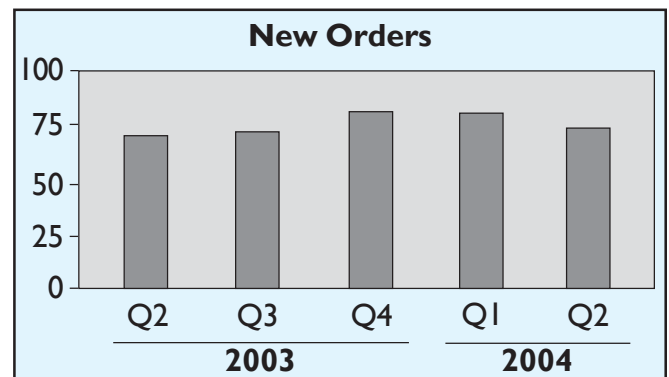


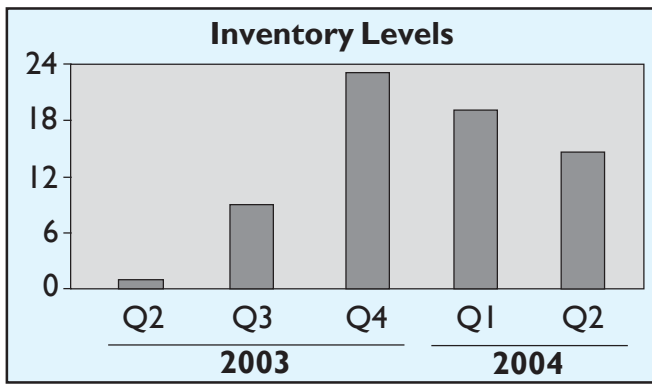
Selling Prices

Though many sectors have been witnessing a hardening of input prices in recent times because of the upward trend in international commodity prices, only about 33% of respondents expect the selling prices of their products to go up during Apr-Jun 04. While about half the respondents anticipate no change in the selling prices, 17% of the companies expect prices to decline. The resultant Optimism Index for Selling Prices stands at 16%, which marks a decline from the peak of 26% witnessed last quarter. The consumer non-durables sector is the most optimistic about prices going up, followed by intermediate goods and basic goods companies.

New Orders

The order book position of Indian companies is likely to keep ticking according to the survey. 80% of the companies expect their new orders to go up, compared to only 6% expecting a decrease in new orders. The resultant Optimism Index for New Orders stands at 74%, as compared to 81% in two previous quarters. The index is now at a level just above its level in Q3 2003. Consumer non-durables and intermediate goods companies are more confident about getting new orders. In contrast, the services companies are relatively less optimistic on this parameter.



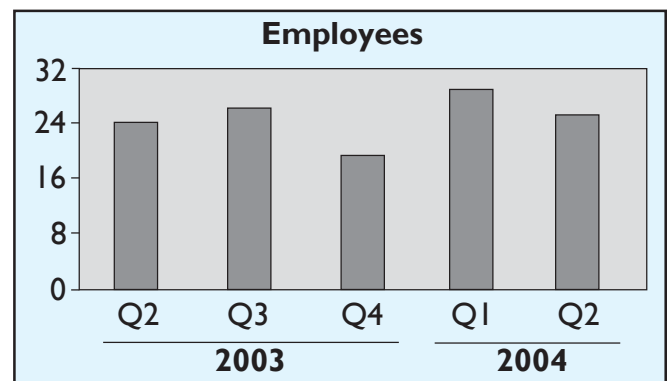


Inventory Levels

Nearly half the companies do not anticipate any change in their inventory levels. This is a pattern that has been observed in the previous rounds of the survey too. While 32% respondents expect their level of stocks to increase, 17% expect it to decline in Apr-Jun 04. The Optimism Index for Inventory, thus, stands at 15% as compared to 19% in the previous quarter and 23% in Q4 2003. On this parameter, the confidence level is relatively high for capital goods and consumer non-durable sectors. In contrast, the intermediate goods sector has nearly the same proportion of companies expecting an increase or a decrease in inventory levels.

Employees

As in the previous round of the survey, this time too 38% of the respondents said that they plan to increase their number of employees. However, the proportion of companies expecting the number of employees to decline has increased in the current round to 13%. As a consequence, the Optimism Index for Employees has declined to 25% for Q2 2004 compared to 29% in the previous quarter. The capital goods companies are the most optimistic about increasing their headcount in Apr-Jun 04, followed by the consumer durables and services sectors.



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