



Dun & Bradstreet

Business Optimism Index

Q3 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 Q3 2004

The Business Expectation Survey for Q3 2004 was conducted in Jun 04, amidst palpable uncertainty regarding the future course of economic reforms, ahead of the Union Budget for 2004-05. While pre-budget worries of a

populist budget added some uncertainty to the markets, the numbers released by the Central Statistical Organisation pointed to an economy in the pink of health.

The CSO has revised FY04 growth to 8.2% Y-O-Y, up from the advance estimate of 8.1%. The growth in Q4 has been estimated at 8.2% (lower than expected), compared to 10.5% growth in Q3, 8.6% growth in Q2 and 5.3% growth in Q1. This strong growth performance was a result of extraordinary growth in farm output, which grew at 9.1% in FY04, which contributed about three fourths of the incremental growth in GDP in FY04. However, this growth came on the back of a negative growth in farm output in the previous year, so the expectation is that the gains were largely due to cyclical factors and unlikely to be repeated this year. Industry is expected to grow at 6.8%, with an expected growth of 7.9% in Q4 of FY04. Manufacturing grew by 7.3%, and is likely to be revised upwards. Services grew by 8.2% in FY04, with a 7.5% growth in Q4, compared to 9.1% growth in Q3, 10% growth in Q2 and 7.2% growth in Q1.

Exports grew by 16% in May 04, and were valued at US\$ 5.8 bn. Exports from India for the period Apr 03-Feb 04 grew by 18.8% y-o-y. Exports of Manufactured goods grew at 16.8%

y-o-y, while exports of Agricultural and allied products grew by 7.1% y-o-y. The rupee's movement vis-à-vis the US dollar remained volatile on the back of volatility in global oil markets, FII inflows, movements of the US dollar against other currencies and on expectations of a US Fed rate hike.

Inflationary pressures seem to be building up in the Indian economy, especially in the industrial sector. Manufacturing inflation rose to 5.6%, while WPI inflation rose to 5.4%.

In line with the air of uncertainty surrounding the course of economic policy, the Composite Business optimism Index for Q3 2004 rose only marginally by 0.6% to 140.1 from 139.3 in the previous quarter. In Q2 2004, the index had declined by 6.4% from its peak of 148.8 recorded in Q1 2004.

For Q3 2004, five out of six optimism indices, namely volume of sales, net profits, selling prices, inventory levels and employees improved. The optimism index for new orders showed a marginal decline for the next quarter.

Q3 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 June Manufacturing ISM Report On Business® (US Economy)

Economic activity in the manufacturing sector grew in June for the 13th consecutive month, while the overall economy grew for the 32nd consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

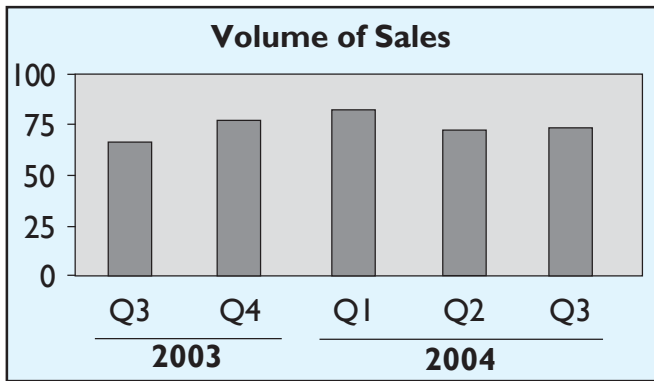
The report was issued by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee and group director, strategic sourcing and procurement, Georgia-Pacific Corporation. "The manufacturing sector grew at a slightly slower, but still aggressive, rate in June. The rate of growth in New Orders and Production remained encouraging as we head into the third quarter. Additionally, the Inventories Index rose above 50 percent, a somewhat rare occurrence, but not unexpected at this stage of a recovery."

ISM's Customer Inventories Index indicates that customer inventories are low, while the ISM Prices Index indicates that manufacturers once again

experienced higher prices in their purchases. The Backlog of Orders Index indicates that order backlogs increased in June. The New Export Orders and Import Indexes continued to grow in June.

ISM's PMI registered 61.1% in June, a decrease of 1.7 percentage points when compared to 62.8% in May. ISM's New Orders Index declined 2.8 percentage points from 62.8% in May to 60% in June. ISM's Production Index decreased 1.6 percentage points from 64.8% in May to 63.2% in June. The ISM Employment Index is at 59.7% for June, a decrease of 2.2 percentage points when compared to the 61.9% reported in May.

"June represents a strong finish to the first half of the year, and the current picture is very encouraging for the third quarter as New Orders and Production are still growing significantly," said Ore.

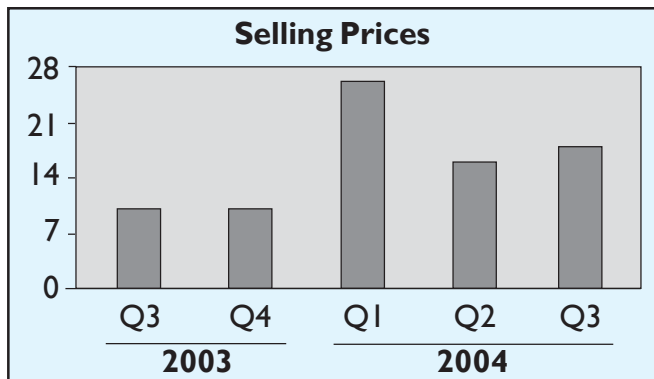
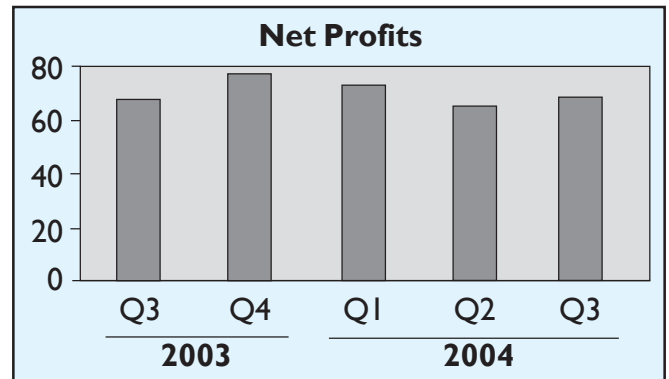


Volume of Sales

Approximately 84% of the respondents expect sale volumes to increase in Jul-Sept 04 while nearly 11% expect a decline in sales. The resultant Optimism Index for Sales Volumes stands at 73%, as compared to 72% in the previous quarter. Amongst the sectors, the basic goods and services segments were the most optimistic about the prospect for sales volume, followed by the consumer non-durables sector. The Capital goods sector was least optimistic on this parameter.

Net Profits

The Corporate Sector has witnessed a moderate increase in profitability. The Optimum Index for Net Profits stands at approximately 69%, which is a small gain with respect to the previous quarter. While 82% of the respondents expect their net profits to go up in the forthcoming quarter, 13% expect profits to fall. The index could have been higher but for the depressed outlook from players in the consumer durables sector. The services sector was the most optimistic on the net profits parameter followed by the basic goods sector.

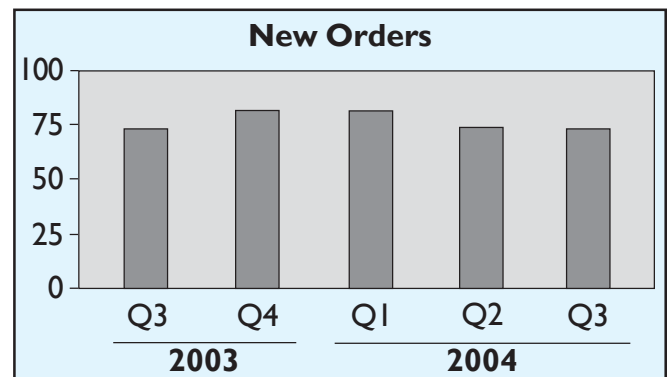


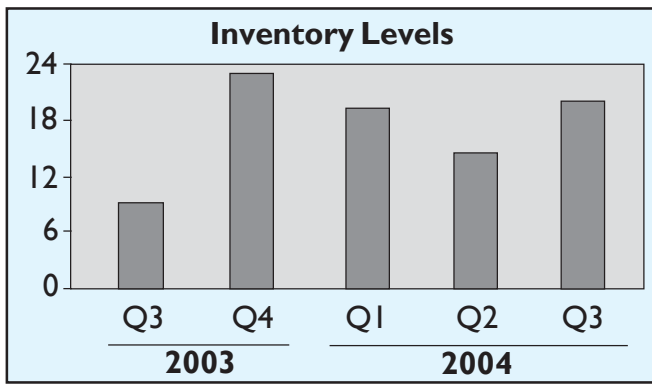
Selling Prices

Approximately 30% of the respondents expect the selling price of their product to go up during July-Sept 04. While nearly 58% of the respondents anticipate no change in the selling price, 12% of the companies expect the prices to decline. The resultant Optimism Index for Selling Prices stands at 18%, which is a rise of 2% from the previous quarter. The services sector was the most optimistic on the selling prices parameter, followed by the consumer non-durables and basic goods sectors.

New Orders

80% of the respondents expect their order book position to improve (the same as in the previous quarter), while 7% expect a decrease in new orders. The resultant Optimism Index for New Orders stands at 73%, which is 1% less than the previous quarter's figure. The index is currently at the same level as it was for the July-Sept 03 quarter. The basic goods sector was the most optimistic about receiving new orders, followed by the services sector. In contrast, the consumer non-durables were least optimistic on this parameter.



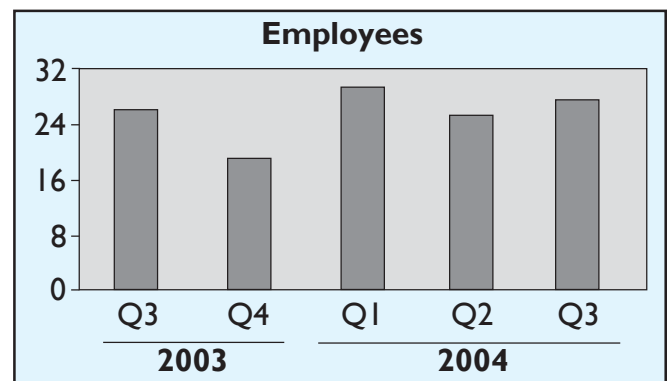


Inventory Levels

38% of respondents expect their level of stocks to increase while 18% expect their stocks to decline in July-Sept 04. The resultant Optimum Index thus stands at 20% as compared to 15% for the previous quarter. The intermediate goods sector showed the largest proportion of respondents expecting an increase in inventory levels, in contrast to the consumer non-durables sector which had the same proportions of companies expecting an increase or a decrease in inventory levels.

Employees

35% of the respondents intend to increase the number of their employees as compared to 38% in the previous quarter. The number of respondents expecting a decline in the number of employees has decreased to 8% for the July-Sept 04 quarter. The resultant Optimum Index for Employees has risen to 27% for Q3 2004 compared to 25% in the previous quarter. Sectors such as consumer durables and services were the most likely to increase their manpower.



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