



Business Optimism Index

Q4 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 Q4 2004

The Business Expectation Survey for Q4 was conducted in Sep 04 amidst concerns over the high inflation caused mainly by a rise in global commodities prices. With greater political stability, and accompanying certainty on the policy front, market sentiment has remained optimistic, with the Sensex rising by approximately 16% since the last BOI Survey in Jun 04. Recently released figures for the first quarter of FY05 reveal that the Indian economy continued its strong performance from the previous quarter.

According to the latest estimates available from the CSO, the Indian economy grew by 7.4% in the first quarter of FY05 over the corresponding quarter of the previous fiscal. This performance was backed by strong performances in the services and manufacturing sectors. The agricultural sector also posted a healthy growth of 3.4% for the first quarter, primarily on account of high growth rates recorded by the Rabi crop. This however was mainly a result of the negative growth rates recorded in agricultural output for the corresponding quarter in the previous fiscal. The delay in the monsoons during the current fiscal is expected to have an adverse effect on agricultural production figures for subsequent quarters.

Exports during Apr-Jun 04 were valued at US\$ 16.8 bn, which was 28% higher than the level of exports during Apr-Jun 03. Imports during Apr-Jun 04 grew relatively slower at 24% y-o-y, and were valued at US\$ 23.1 bn. India recorded a trade deficit of US\$ 6.3 bn during the first quarter of FY05, which was 13% higher than the deficit in Apr-Jun 03. However, strong inflows on the invisible account resulted in a surplus in India's current account, which was valued at US\$ 1.9 bn during the first quarter of the current fiscal as against a deficit of US\$ 636 mn in the corresponding quarter of the previous year.

During the current fiscal, inflation rose at a rapid pace, mainly on account of the fuel, minerals and metal categories of the WPI. This was primarily caused by the rise in global prices of oil and steel. However, it is expected that as the year progresses, the high base effect of the previous fiscal will cause point-to-point inflation in the current year to taper off.

The Composite Business Optimism Index for Q4 2004 declined by 23% to 107.8 from 140.1 in the previous quarter. In Q3 2004, the index had improved marginally by 0.6% from 139.3 recorded in Q2 2004.

For Q4 2004, five out of the six optimism indices, namely volume of sales, net profits, selling prices, inventory levels and employees have declined. However, this is mainly due to expectations that there would be no significant change in the current situation rather than deterioration. The optimism index for new orders however showed a slight improvement for the next quarter.

Q4 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™. 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 September Manufacturing ISM Report on Business® (US Economy)

Economic activity in the manufacturing sector grew in September for the 16th consecutive month, while the overall economy grew for the 35th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

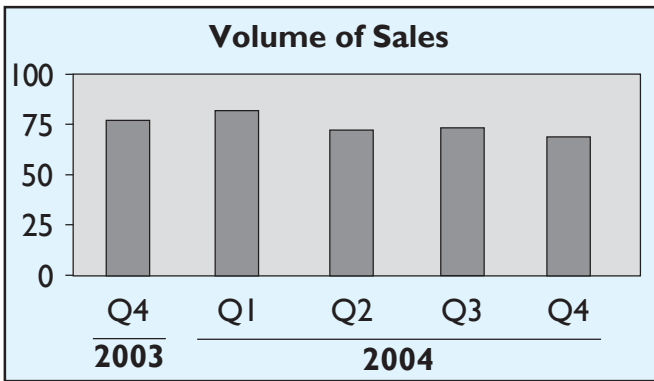
The report was issued by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee and group director, strategic sourcing and procurement, Georgia-Pacific Corporation. "The manufacturing sector continued to grow during September, but at a slightly slower rate. Both new orders and production remain strong, and employment growth accelerated."

The ISM Prices Index still indicates that there is significant upward pressure on prices. ISM's Customers' Inventories Index indicates that customer inventories are too low at this time. The Backlog of Orders Index indicates that order backlogs increased

in September. The New Export Orders and Imports Indexes continued to grow in September.

ISM's PMI registered 58.5% in September, a decrease of 0.5 percentage point when compared to 59% in August. ISM's New Orders Index declined 3.1 percentage points from 61.2% in August to 58.1% in September. ISM's Production Index increased 2.1 percentage points from 59.5% in August to 61.6% in September. The ISM Employment Index is at 58.1% for September, an increase of 2.4 percentage points when compared to the 55.7% reported in August.

"September was surprisingly strong given the recent slowing of growth in new orders. Production and employment were particularly encouraging as both indexes increased when compared to August. Any concern over inventory growth would seem to be offset by the decline in customer inventories," said Ore.

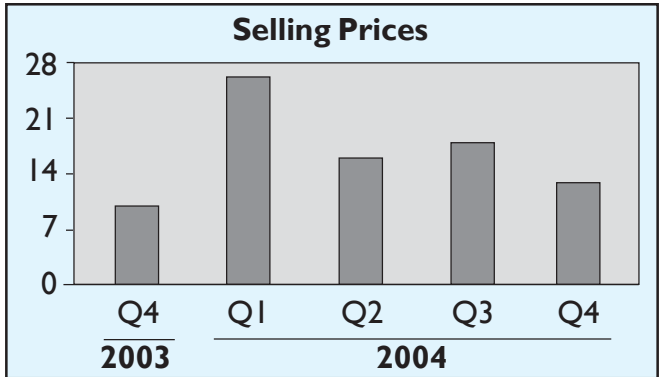
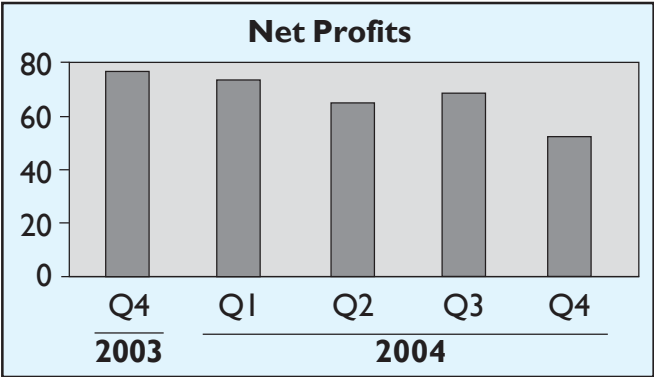


Volume of Sales

Approximately 74% of the respondents expect sales volume to increase during the Oct-Dec 04 quarter while just over 5% expect a decline in sales. The resultant Optimism Index for Volume of Sales stands at 69%, as compared to 73% in the previous quarter. This decline is mainly due to an increase in the number of respondents expecting no change in volume of sales during the fourth quarter. Amongst the sectors, the basic goods and consumer non-durables segments were the most optimistic about an increase in sales volume. The services sector was least optimistic on this parameter, in contrast to the previous quarter where respondents from this sector were the most optimistic about growth in sales volume.

Net Profits

While no significant increase is expected in terms of profitability for the Oct-Dec 04 quarter, a fall in profits is not expected either. About 57% of the respondents anticipate an increase in profitability while only 5% expect their net profits to fall in the forthcoming quarter. A major portion of respondents have indicated that they expect no change in net profits for the quarter. The resultant Optimism Index for Net Profit stands at 52%, as compared to 69% in the previous quarter. The consumer non-durables segment was the most optimistic on the net profit parameter, followed by the services sector.

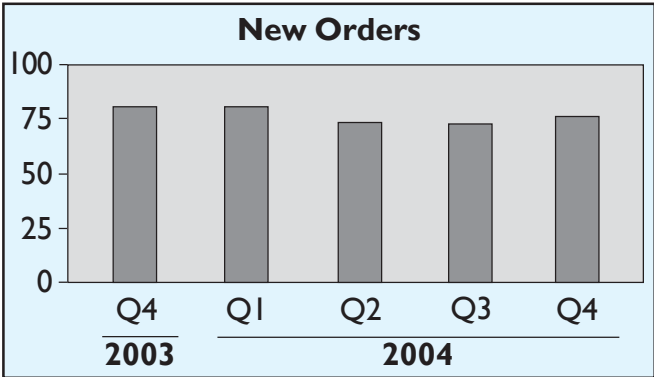


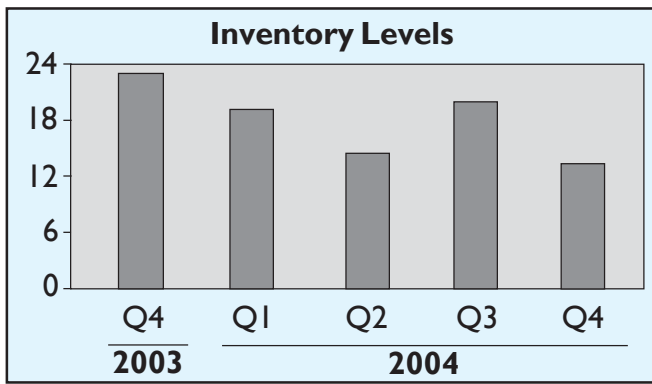
Selling Prices

It has been observed that a huge majority of respondents (about 73%) expect the selling prices of their products to remain the same. While only 20% of the respondents expect selling prices of their products to increase, about 7% expect the prices to decline. The resultant Optimism Index for Selling prices stands at 13%, reflecting a decline of about five percentage points from the previous quarter. It was observed that in all segments, most respondents expect no change in the level of selling prices of products. The basic goods segment was the most optimistic, with 30% of respondents anticipating an increase in prices.

New Orders

Respondents were seen to be most optimistic on the New Orders parameter. While approximately 79% of the respondents expect their order book position to improve (a marginal decline of 1 percentage point from the previous quarter), only 2% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders stands at 77%, as compared to 73% in the previous quarter. The consumer non-durables segment was the most optimistic with almost 94% of respondents expecting a rise in the number of orders, followed by the basic goods and intermediate goods sectors. The services sector was the least optimistic mainly due to a larger proportion of respondents expecting no change in the number of orders.



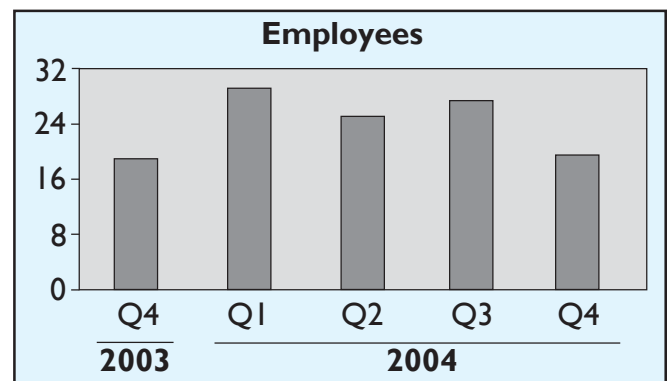


Inventory Levels

23% of the respondents expect their level of stock to increase while about 9% expect their stock to decline in the Oct-Dec 04 quarter. The resultant Optimism Index for Inventory levels stands at approximately 14%, as compared to 20% in the previous quarter. It was observed that while the majority of respondents in all sectors anticipated no change in their inventory levels, the consumer non-durables segment reflected the highest proportion of respondents expecting an increase in level of stock. This is in sharp contrast to the previous quarter when an equal number of respondents expected an increase or a decrease in inventory levels for this segment.

Employees

For the Oct-Dec 04 quarter, approximately 23% of the respondents intend to increase the number of employees, as compared to 35% in the previous quarter. At the same time however, only 4% of the respondents expect a decline in the number of employees, indicating that the majority of respondents anticipate no significant change from the current situation. The resultant Optimism Index for Employees has declined to approximately 19% for the Oct-Dec 04 quarter, as compared to 27% in the previous quarter. Among the sectors, the services and consumer non-durables segments showed greater inclination towards increasing the number of employees.



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