



Dun & Bradstreet

Business Optimism Index

Q1 2005

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 goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the 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 Q1 2005

The Business Expectation Survey for Q1 2005 was conducted in Dec 04, at a time when the Indian economy looked to end the calendar year on a high note. The stock markets remained positive during the Oct-Dec 04 quarter, with the Sensex, having breached the 6,000 mark in the November, continuing its upward trend in the following month. As at 31-Dec-04, the Sensex had risen by approximately 18% since the last BOI Survey in Sep 04. The optimism on the Indian market was further corroborated by the steady inward flow of foreign funds, with the

country's foreign exchange reserve balance crossing over US\$ 130 bn as at 24-Dec-04. The prevailing positive sentiment was also helped by a recent decline in inflation, which was mainly on account of dipping global crude prices coupled with the high base effect of the previous fiscal. Recently released GDP figures for the second quarter of FY05 reveal that the Indian economy has continued its impressive performance from the previous quarter.

According to the latest estimates released by the CSO, the Indian economy grew by 6.6% during the quarter ended 30-Sep-04, as compared to 8.6% during the corresponding quarter of the previous fiscal. As anticipated, the deficient rainfall witnessed in some parts of the country earlier in the financial year had an adverse impact on agricultural growth, which recorded a negative growth of 0.8% for the Jul-Sep 04 quarter. The high base effect of the 6.9% growth recorded in the agricultural sector in the Jul-Sep 03 quarter has also played a role in the dampened growth numbers recorded in the second quarter of the current fiscal. The Indian manufacturing sector, on the other hand, has continued the impressive growth it witnessed in recent quarters, recording a significant growth of 9.3% for the second quarter of the current fiscal. This strong contribution by the sector has also helped the Indian economy to maintain a robust GDP for the first half of the current fiscal. According to CSO estimates, India's GDP grew by 7% during the first half of

FY05, as against 6.9% in the corresponding period of the previous fiscal.

India's current account, however, recorded a deficit of US\$ 6.4 bn in the second quarter of FY05. This was primarily on account of a sharp increase in import payments, particularly for POL (crude petroleum and products), which was driven by higher demand and rising global crude oil prices during the Jul-Sep 04 quarter.

The Composite Business Optimism Index for Q1 2005 seems to reflect the positive sentiment on the Indian economy, recording an increase by 28.4% to 138.4 from 107.8 in the previous quarter. In Q4 2004, the index had fallen by 23% from 140.1 recorded in Q3 2004, primarily on account of concern and speculation over the high inflation and rising oil prices. It may, however, be mentioned at this point that the index has not captured the recent devastation caused by the Tsunami disaster and its impact on the economy and corporate sentiment.

Based on responses received, it is observed that for Q1 2005, all six optimism indices, namely volume of sales, net profits, selling prices, new orders, inventory levels and employees, have increased over the previous quarter.

Q1 2005 expectations for each of the six parameters and their comparison with those of the previous quarters are discussed on 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

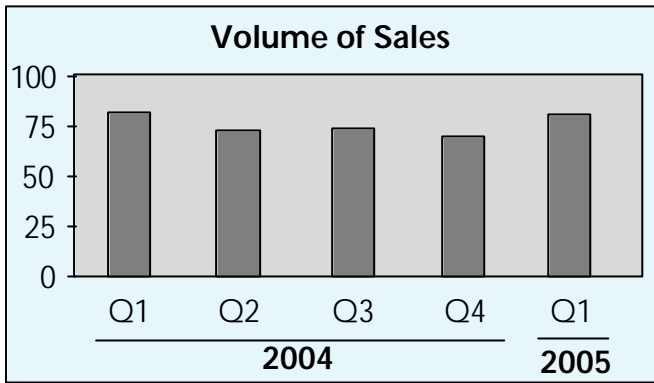
Extract from December Manufacturing ISM Report on Business® (US Economy)

Economic activity in the manufacturing sector grew in December for the 19th consecutive month, while the overall economy grew for the 38th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today 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. "December's PMI, driven by a significant increase in the New Orders Index, is very encouraging as growth has accelerated for the second consecutive month. This completes a strong year for manufacturing based on the ISM data, as the overall index averaged above 60% for 2004. While there is continuing upward pressure on prices, the rate of increase is slowing and definitely trending in the right direction."

ISM's PMI registered 58.6% in December, an increase of 0.8 percentage point when compared to 57.8% in November. ISM's New Orders Index rose 5.9 percentage points from 61.5% in November to 67.4% in December. ISM's Production Index decreased 0.1 percentage point from 57% in November to 56.9% in December. The ISM Employment Index is at 52.7% for December, a decrease of 4.9 percentage points when compared to the 57.6% reported in November.

"December continued a trend of strong growth in the manufacturing sector as 2004 closes with significant momentum going into the first quarter of 2005. The sector struggles with inflationary pressures, but strong demand is a consolation. Manufacturing inventories have grown in five of the last seven months; however, those respondents increasing their inventories indicate that current and expected demand requires higher inventory levels," said Ore.

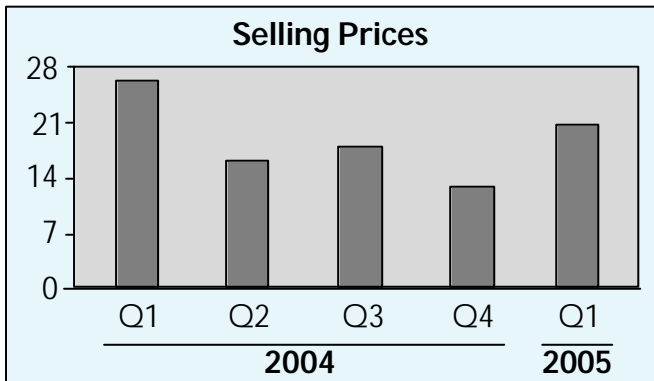
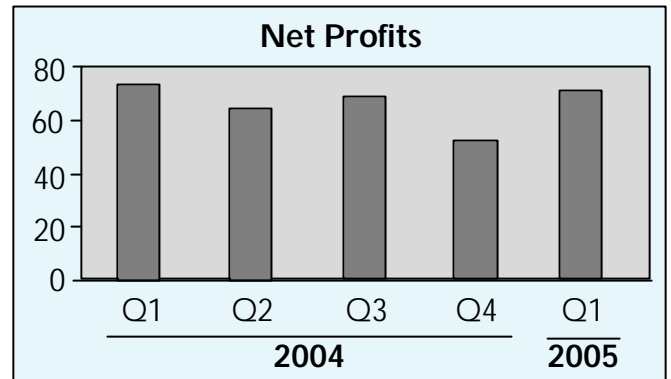


Volume of Sales

It was observed that just over 84% of the respondents expect sales volume to increase during the Jan-Mar 05 quarter while about 3% expect a decline in sales. The resultant Optimism Index for Volume of Sales stands at 81%, as compared to 69% in the previous quarter. Amongst the sectors, the Optimism Index was highest in the services and capital goods segments. The basic goods sector was least optimistic on this parameter, in contrast to the previous quarter where respondents from this sector were most optimistic about growth in sales volume.

Net Profits

The Corporate Sector is also optimistic on profitability for the Jan-Mar 05 quarter. While about 78% of the respondents anticipate an increase in profitability (an increase of 21 percentage points over the previous quarter), only 7% expect a decline in their net profits in the forthcoming quarter. The resultant Optimism Index for Net Profit stands at 71%, reflecting an increase of 19 percentage points over the previous quarter. For the second consecutive quarter, the Optimism Index for this parameter was highest in the consumer non-durables sector, followed by the services segment.

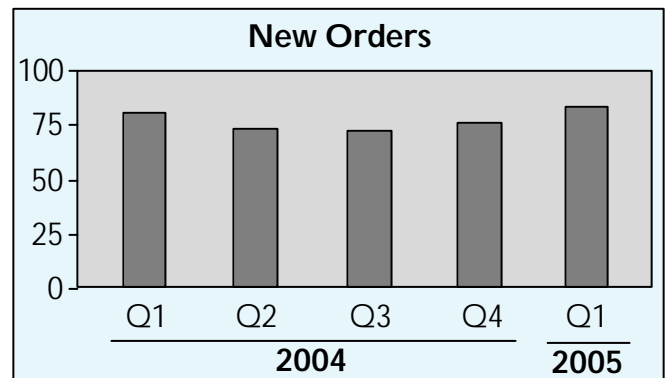


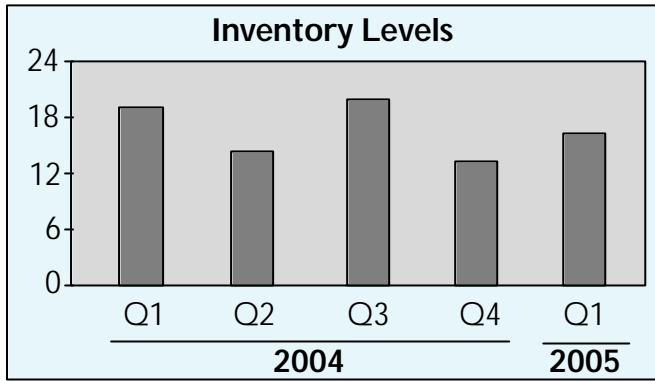
Selling Prices

28% of the respondents expect selling prices of their products to increase in the forthcoming quarter while just over 7% anticipate a fall in prices. The resultant Optimism Index for Selling Prices for the Jan-Mar 05 quarter stands at 21%, as compared to 13% in the previous quarter. It was observed that in all segments, a large majority of the respondents expect no change in the level of selling prices of products. The Optimism Index for this parameter was highest in the basic goods segment with 45% of respondents anticipating an increase in prices.

New Orders

For the second consecutive quarter, respondents are seen to be most optimistic in the New Orders parameter. Approximately 86% of the respondents expect their order book position to improve, while only 3% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders for Q1 2005 stands at 83%, as compared to 77% in the previous quarter. It was also observed that the Optimism Index was highest in the services sector, with 90% of respondents expecting a rise in the number of orders. The Optimism Index for this parameter was lowest in the basic goods sector.



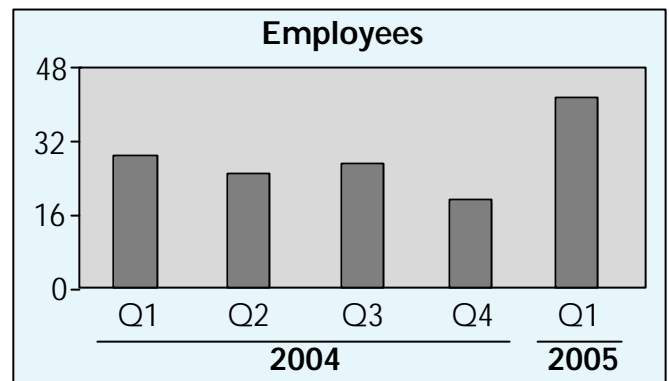


Inventory Levels

27% of the respondents expect their level of stock to increase while just over 11% expect their stock to decline in the forthcoming quarter. The resultant Optimism Index for Inventory levels stands at 16%, as compared to 14% in the previous quarter. While a sizeable proportion of respondents anticipate no change in their inventory levels for all sectors, it was observed that the Optimism Index was highest in the consumer non-durables segment, with 35% of the respondents expecting an increase in the level of stock. The Optimism Index for this parameter was lowest in the capital goods sector, where only 18% of the respondents expect an increase in inventory levels.

Employees

It was observed that for the Jan-Mar 05 quarter, about 44% of the respondents intend to increase the number of employees, an increase by 21 percentage points over the previous quarter. At the same time only 2% of the respondents expect a decline in the number of employees, as compared to 4% in the previous quarter. The resultant Optimism Index for Employees has increased to 42% for Q1 2005, as compared to 19% in the previous quarter. The Optimism Index for this parameter was highest in the services segment, while the capital goods segment showed least inclination towards increasing the number of employees.



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