



Business Optimism Index

Q2 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 Q2 2005

The Business Expectation Survey for Q2 2005 was conducted in Mar 05, with the Indian economy looking steady despite a sharp rise in global crude oil prices and domestic concerns over the implementation of the VAT. The Jan-Mar 05 quarter witnessed high volatility in the stock markets, as the BSE Sensex hit an all-time high on 08-Mar-05, when it closed above the 6,900 mark. However, a rise in US interest rates coupled with the intimation that foreign inflows into India had slowed down in Mar 05 seemed to weigh down the markets and as at

31-Mar-05, the Sensex closed at 6,493, a decline of almost 2% since the last BOI Survey in Dec 04.

The continuous rise in global crude oil prices has also caused considerable concern. Oil prices (UK Brent) have risen by almost 40% during the Jan-Mar 05 quarter, closing at US\$ 56.51 per barrel on 01-Apr-05. Further, the fact that crude oil futures have been rising steadily as well seems to indicate that there will be no immediate let off in prices, and there continues to be an aura of uncertainty on whether rising global demand requirements can be matched by a corresponding increase in production.

For India, the increase in oil prices is bound to have an adverse effect on the trade deficit as well, since oil imports account for almost 30% of the country's total imports. Recently released data by the RBI shows India's current account deficit increased by a further US\$ 5.4 bn in the third quarter of FY05. The current account deficit for the Apr-Dec 04 period stands at US\$ 7.4 bn.

According to latest estimates released by the CSO, the Indian economy grew by 6.2% during the quarter ended 31-Dec-04, as compared to 11% in the year ago period. Agricultural production recorded a negative 1.1% growth for the Oct-Dec 04 quarter, though the high base effect of the 18.2% growth recorded in the agricultural sector in the Oct-Dec 03 would have

played a role in dampening the growth numbers for the current quarter. The Indian manufacturing sector, on the other hand, has managed to sustain the impressive growth it has witnessed in recent quarters, recording a 10.4% growth for the third quarter of the current fiscal. Significant growth was also observed in the construction sector for the Oct-Dec 04 quarter. However, with the Indian economy having grown by 6.7% during the Apr-Dec 04 period for the current fiscal, India's targeted growth of 7% for FY05 seems unlikely.

Buoyed in some parts by the Union Budget announcements this year, overall corporate sentiment seems to be fairly optimistic for the Apr-Jun 05 quarter, with expectations that global growth will continue to be robust. The Composite Business Optimism Index for Q2 2005 recorded an increase by 19.3% to 165.2 from 138.4 in the previous quarter. In Q1 2005, the index had risen by 28.4% to 138.4 from 107.8 in the previous quarter.

Based on responses received, it is observed that for Q2 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.

Q2 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

Extracted from March Manufacturing ISM Report on Business® (US Economy)

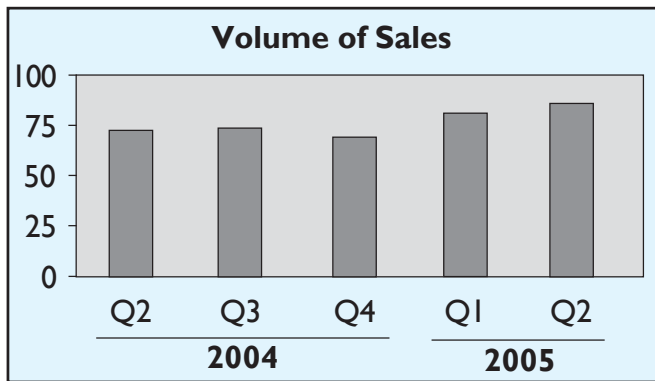
Economic activity in the manufacturing sector grew in March for the 22nd consecutive month, while the overall economy grew for the 41st consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The manufacturing sector maintained its strength in March, finishing the first quarter in a relatively strong position. Growth in New Orders and Inventories helped offset lower index readings in Production, Supplier Deliveries and Employment. Price inflation continues to present a problem for manufacturers as the Prices Index gained significant momentum."

The 16 industries reporting growth in March - listed in order - are: Primary Metals; Textiles; Glass, Stone & Aggregate; Wood & Wood Products; Instruments

& Photographic Equipment; Electronic Components & Equipment; Rubber & Plastic Products; Furniture; Miscellaneous*; Industrial & Commercial Equipment & Computers; Chemicals; Fabricated Metals; Transportation & Equipment; Printing & Publishing; Apparel; and Food. The industries reporting the same level of activity as last month are: Tobacco and Petroleum. Paper is the only industry reporting decreased activity during March.

The PMI for March registered 55.2%, a decrease of 0.1 percentage point when compared to February's seasonally adjusted reading of 55.3%. ISM's New Orders Index grew in March with a reading of 57.15%. The index is 1.3 percentage points higher than the seasonally adjusted 55.8% registered in February. ISM's Production Index is 56.5% in March, 0.2 percentage point lower than the seasonally adjusted 56.7% reported in February. ISM's Employment Index registered 53.3% in March compared to 57.4% in February, a decrease of 4.1 percentage points.

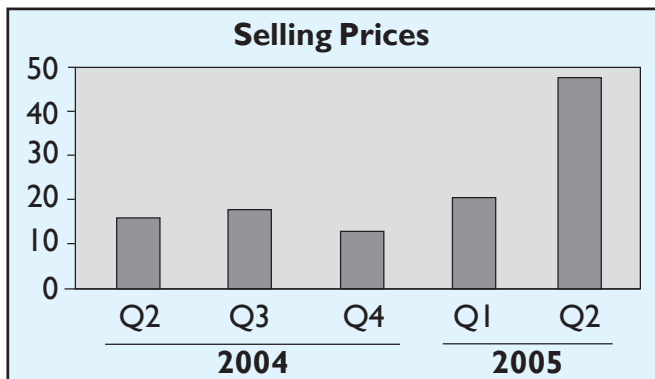
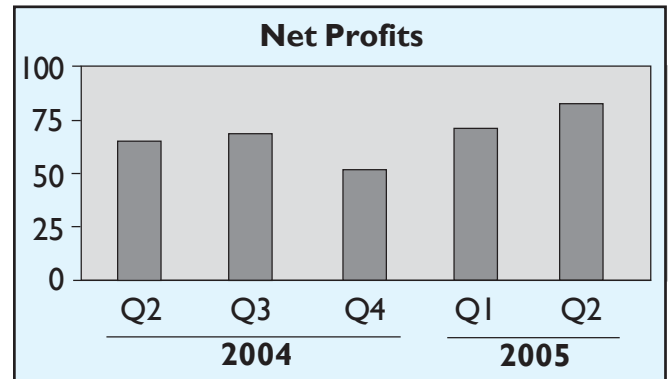


Volume of Sales

Approximately 88% of the respondents expect sales volumes to increase during the Apr-Jun 05 quarter, while about 3% expect a decline in sales. The resultant Optimism Index for Volume of Sales for Q2 2005 stands at 85% as compared to 81% in the previous quarter. The Optimism Index was highest in the services sector for the second consecutive quarter. Consumer non-durable and capital goods segments were also seen to be optimistic about a growth in sales volumes during Q2 2005.

Net Profits

The Corporate sector seems to be expecting a rise in net profit figures during the Apr-Jun 05 quarter. About 87% of the respondents anticipate an increase in profitability, while only 4% expect a decline in profits during the forthcoming quarter. The resultant Optimism Index for Net Profits for Q2 2005 stands at 83%, indicating an increase by 12 percentage points over the previous quarter. The Optimism index was seen to be highest in the services sector, while the basic goods segment seemed least optimistic on this parameter.

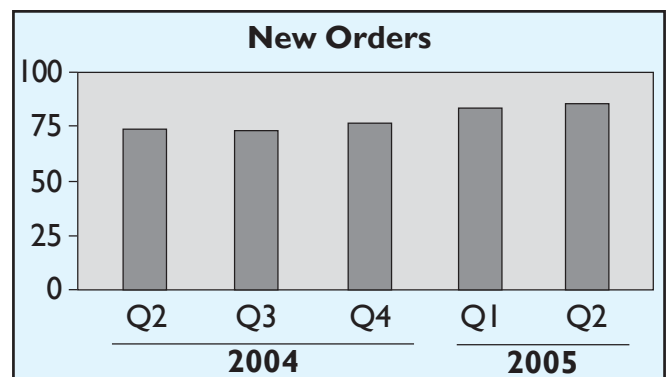


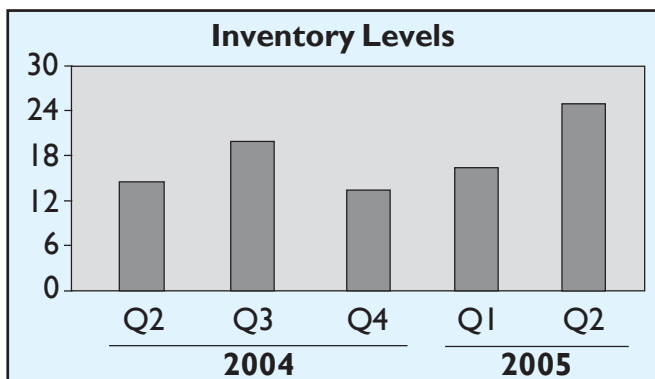
Selling Prices

The percentage of respondents expecting an increase in selling prices of their products has almost doubled for Q2 2005. Approximately 51% of the respondents anticipate selling prices to go up during the forthcoming quarter, while only 3% expect prices to decline. The resultant Optimism Index for Selling Prices for Q2 2005 stands at 48%, which is a rise of 27 percentage points from the previous quarter. It was observed that for Q2 2005, the Optimism Index was highest in the Capital Goods sector.

New Orders

For the third consecutive quarter, respondents were seen to be most optimistic on the New Orders parameter. While approximately 88% of the respondents expect their order book position to improve, only 3% anticipate a decline in the number of orders. The resultant Optimism Index for New Orders for Q2 2005 stands at 85%, having risen by 2 percentage points over the previous quarter. For the second consecutive quarter, the Optimism Index was highest in the services sector, with just over 91% of the respondents expecting an increase in new orders.



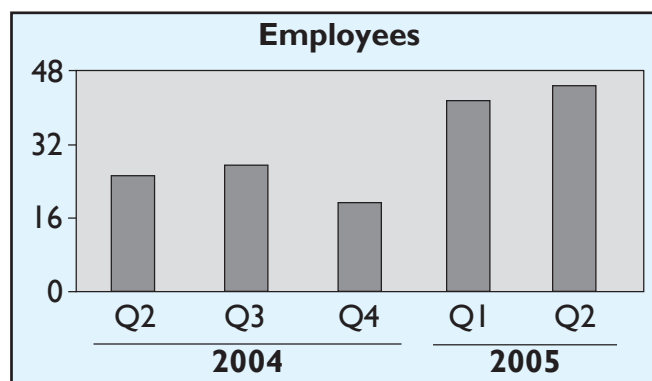


Inventory Levels

Approximately 37% of the respondents intend to increase their inventory levels while about 12% are expecting their stocks to decline during the Apr-Jun 05 quarter. The resultant Optimism Index for Inventory Levels for Q2 2005 stands at 25%, as compared to 16% in the previous quarter. For the second consecutive quarter, the Optimism Index was highest in the consumer non-durables sector and lowest in the capital goods sector. While 55% of respondents in the consumer non-durables sector anticipate a rise in inventory levels, only 28% from the capital goods sector expect their stock levels to increase.

Employees

For the Apr-Jun 05 quarter, it was observed that about 47% of the respondents anticipate an increase in the size of their staff, an increase by 3 percentage points over the previous quarter. Further, only 2% of the respondents expect a decline in the number of employees, which is similar to the previous quarter's findings. The resultant Optimism Index for Employees for Q2 2005 stands at 45% as compared to 42% in the previous quarter. Respondents from the Services sector seem most likely to increase their manpower during the forthcoming quarter.



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