



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q2 2007

April 2007

D&B Business Expectations Survey

Outlook for Q2 2007 - Key Highlights

- Composite Business Optimism Index registers an increase
- Capital goods and Intermediate goods sectors highly optimistic with regard to order book positions
- Consumer durables sector least optimistic on most parameters

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 includes companies belonging to the basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the service sectors. 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 in 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 2007

The Business Expectations Survey for Q2 2007 was conducted in March, at a time when the Indian economy was looking optimistic despite a trend of rising inflation.

Industrial output has continued to show healthy performance. The Index of Industrial Production (IIP) for Apr-Feb 07 grew by 11.1% as compared with 8.1% during the corresponding period of the previous year. For the month of Feb 06, though a growth of 11% in IIP does indicate a deceleration in growth over the last four months, (from 15.8% in Nov 06 to 12.5% in Dec 06 and further to 11.4% in Jan 07) it is nonetheless high as compared with a growth of 8.8% recorded during the year-ago month. As per use-based classification, the growth in capital and intermediate goods sectors of 18% and 13.7% in Feb 07 is indication of continued robustness. Growth in consumer durables though showed a slowdown to 1.6% in Feb 07 from the 20% growth in the year-ago month. A high base effect on the growth of consumer durables is evident, but nevertheless the impact of rising interest rates cannot be completely ruled out.

On the external sector front, balance of payment figures released by the Reserve Bank of India reveal a narrowing of the current account deficit to US\$ 3 bn during the Oct-Dec 06 period as compared with US\$ 4.8 bn during the year ago quarter. The decline in the current account deficit was on the back of a sharp rise in invisible receipts during the same period. Net capital inflows during Q3 FY07 stood at US\$ 10.7 bn; the major sources of capital inflows in FY07 have been foreign direct investment, NRI deposits as well as external commercial borrowings. The sustained inflow of foreign capital has resulted in the appreciation of the rupee in recent months, with the rupee touching an eight year high of 42.51 as on 17-Apr-07. Foreign exchange reserves have also crossed the US\$ 200 bn mark in the current month.

Reflecting the overall positive sentiment, the Composite BOI for Q2 2007 has recorded an increase as compared with Q1 2007, albeit at a lower rate as compared with the observed growth for the preceding two quarters. The Composite BOI for Q2 2007 stands at 201.2 points, an increase of 3.4% as compared to the previous quarter. On a y-o-y basis, the BOI has increased by 13%. Based on the responses received, it is observed that for Q2 2007, four of the six optimism indices, namely, volume of sales, net profits, selling prices and new orders, have decreased over the previous quarter. The capital goods sector was positive on most parameters while the consumer durables sector is the least optimistic on expectations for Q2 2007.

Q2 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

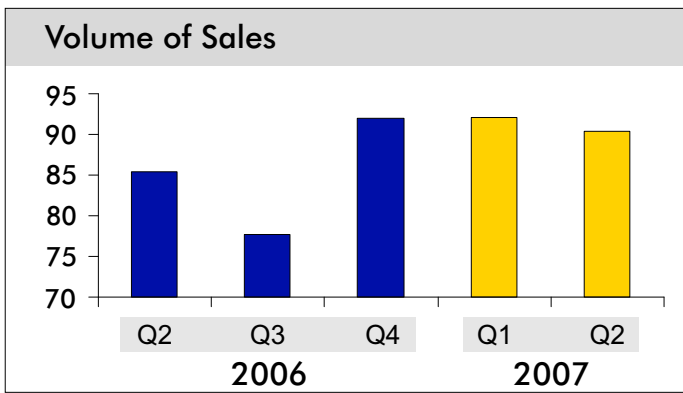
The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets, companies and Governments

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

Economic activity in the manufacturing sector expanded in March for the second consecutive month, while the overall economy grew for the 65th 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. "Manufacturing improved slightly in March as the PMI reflected growth for the second consecutive month. The New Orders and Production Indexes advanced while the Employment and Inventories Indexes declined. A positive for March is the Customers' Inventories Index (falling below 50 percent after five consecutive months above the breakeven line), which is a possible indication that manufacturers' inventories are nearing satisfactory levels. On the negative side, prices appear to be surging for certain commodities in the face of slower growth." The 10 industries reporting growth in March listed in order are: Apparel, Leather & Allied Products; Miscellaneous Manufacturing; Wood Products; Transportation Equipment; Plastics & Rubber Products; Chemical Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; and Textile Mills.

The manufacturing economy continued to grow in March as the PMI registered 50.9 percent, a decrease of 1.4 percentage points when compared to February's seasonally adjusted reading of 52.3 percent. ISM's New Orders Index registered 51.6 percent in March. The index is 3.3 percentage points lower than the seasonally adjusted 54.9 percent reported in February. ISM's Production Index registered 53 percent in March, 1.1 percentage points lower than the seasonally adjusted 54.1 percent reported in February. March is the second consecutive month of production growth for manufacturers ISM's Employment Index registered 48.7 percent in March, a decrease of 2.4 percentage points when compared to February's seasonally adjusted reading of 51.1 percent. The Employment Index has failed to grow in four of the last five months. Manufacturers' inventories contracted for the eighth consecutive month in March as ISM's Inventories Index registered 47.5 percent, a 2.9 percentage point increase when compared to February's reading of 44.6 percent (seasonally adjusted).

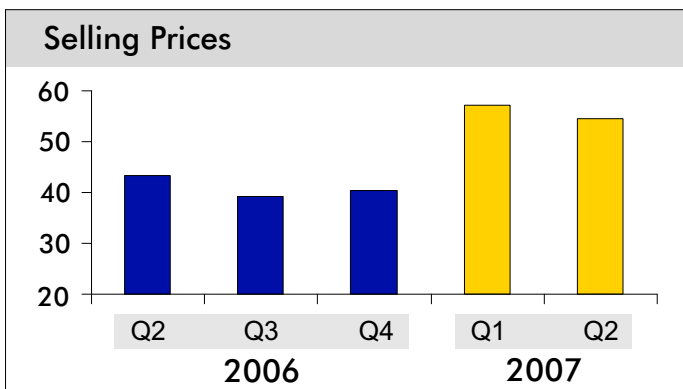
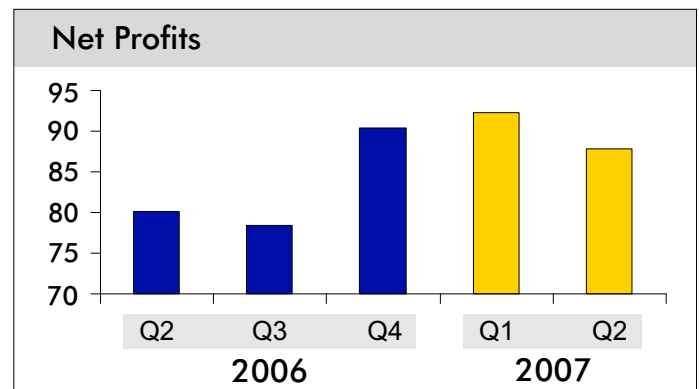


Volume of Sales

Demand conditions are expected to remain strong in Q2 2007 with approximately 91% of the respondents expecting sales volumes to increase. While 8% of respondents expect sales conditions to remain stagnant during the quarter under review, a marginal 1% expect a decline in sales. The resultant Optimism Index for Volume of Sales for Q2 2007 stands at 90% as compared to 93% in the previous quarter. The Optimism Index was highest in the capital goods sector; the consumer non-durables and intermediate goods segments were also seen to be optimistic about a growth in sales volumes during Q2 2007.

Net Profits

The corporate sector seems to be expecting a rise in net profit figures during the Apr-Jun 07 quarter. About 89% of the respondents anticipate an increase in profitability, while just 1% expect a decline in profits during the forthcoming quarter. The resultant Optimism Index for Net Profits for Q2 2007 stands at 88%, a decrease of 4 percentage points as compared to the Jan-Mar 07 quarter. Once again, optimism was high amongst respondents in the capital goods and consumer non-durables segments.

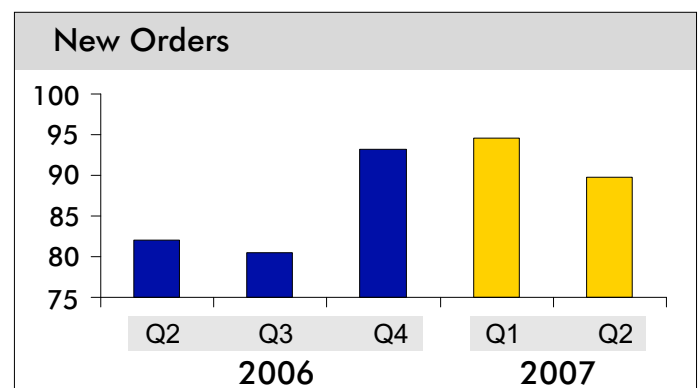


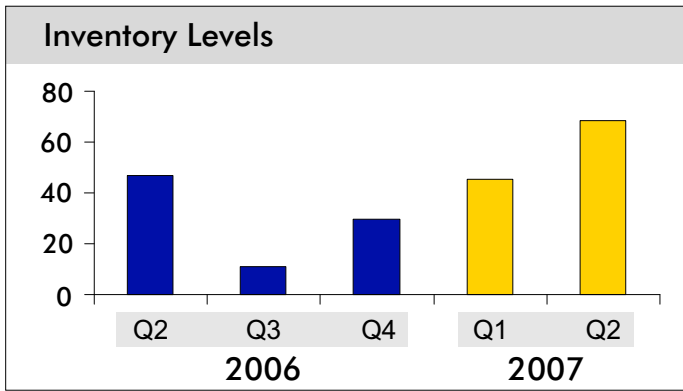
Selling Prices

Approximately 57% of the respondents anticipate selling prices to go up during the forthcoming quarter, while about 3% expect prices to decline. The resultant Optimism Index for Selling Prices for Q2 2007 stands at 54%. The Optimism Index for this parameter was highest in the intermediate goods segment with 72% of respondents anticipating an increase in prices. The consumer durables segment was the least optimistic with just 29% of the respondents expecting an increase in selling prices.

New Orders

The business community appears to be reasonably optimistic with regard to expectations over order book positions for the Apr-Jun 07 quarter. While 92% of the respondents expect their order book position to improve, only 2% anticipate a decline in the number of orders. The resultant Optimism Index for New Orders for Q2 2007 stands at 90%. All survey respondents from the capital goods and intermediate goods sectors expect an improvement in order book positions during the forthcoming quarter.



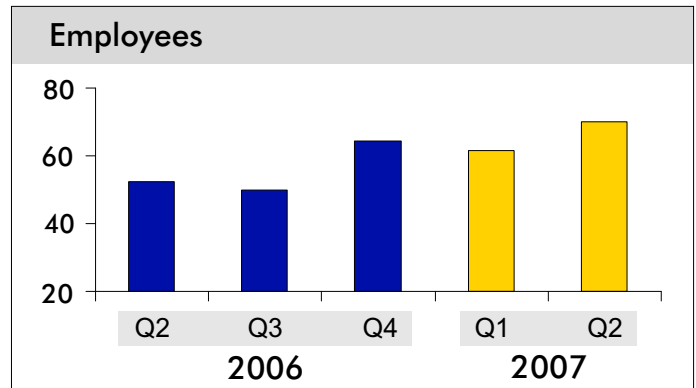


Inventory Levels

Approximately 74% of the respondents intend to increase their inventory levels while about 4% are expecting their stocks to decline during the Apr-June 07 quarter. The resultant Optimism Index for Inventory Levels for Q2 2007 stands at 70%, as compared to 50% in the previous quarter. The optimism index was highest for the capital goods sector, with 77% of respondents expecting an increase in inventory levels during the Apr-Jun 07 quarter.

Employees

For the Apr-Jun 07 quarter, it was observed that about 73% of the respondents anticipate an increase in the size of their staff, while a marginal 2% of the respondents expect a decline in the number of employees. The resultant Optimism Index for Employees for Q2 2007 stands at 71% as compared to 62% in the previous quarter. Respondents from the consumer non-durables, services and capital goods sectors seem most likely to increase their manpower during the forthcoming quarter.



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