



Decide with Confidence

# Dun & Bradstreet Business Optimism Index

India | Q4 2007

October 2007

## D&B Business Expectations Survey

### *Outlook for Q4 2007 - Key Highlights*

- Composite Business Optimism Index up 9.1% y-o-y
- Confidence up 15.5% q-o-q; low base effect plays a role
- Capital and Consumer Durables sectors highly optimistic
- Services sector less 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 Q4 2007

The D&B Business Expectations Survey for Q4 2007 was conducted in the month of Sep 07, at a time when sentiment in the domestic capital markets was highly optimistic. The BSE Sensex has risen by approximately 18% since the last survey conducted in Jun 07, drawing support from strong foreign fund flows. Expectations of strong corporate results and the increasing interest rate differential following the cut in the US Federal rate have attracted funds into the domestic capital markets.

Strong foreign capital inflows into the equity market, in turn, resulted in a sharp increase in foreign exchange reserves, thereby enhancing liquidity levels and placing upward pressure on the rupee. Foreign exchange reserves have increased by US\$ 52 bn during the fiscal year so far (1-Apr-07 to 5-Oct-07), already exceeding the total accretion to forex reserves during the whole of FY07 (approx US\$ 49 bn). FDI inflows during Q1 FY08 at US\$ 5.9 bn were also more than twice the US\$ 2.5 bn received during the year-ago period, reflecting the long term positive view of the economic scenario. As a result of these inflows, the rupee has appreciated by almost 9% during the

current fiscal and now stands below the 40/US\$ mark. Industrial production, as measured by the IIP, has also exceeded expectations, growing by 10.7% in Aug 07 and by 9.8% during the Apr-Aug 07 period. Corporate tax collections for the first half of the current fiscal have increased by 41%, indicative of healthy corporate earnings.

Reflecting the positive economic scenario, the Composite Business Optimism Index has increased by 9.1% on a y-o-y basis. On a q-o-q basis, the Composite BOI has risen by 15.5%; however, this is in part due to the low base of the previous quarter. Based on the responses received, it is observed that five out of the six optimism indices, namely volume of sales, selling prices, new orders, inventory levels and employee levels have registered increases as compared with the previous quarter. Amongst the sectors surveyed, the capital goods sector and the consumer durables sector were the most optimistic with respect to expectations for the Oct-Dec 07 quarter. The continued high growth in capital goods production (30% in Aug 07) is reflective of the high level of investment activity in the economy and augurs well for growth prospects in the longer term. The BSE Capital Goods index has also risen by almost 25% since the beginning of Sep 07. Optimism amongst respondents in the consumer durables sector can be attributed to expectations of increased demand during the festive season. The services sector seemed the least optimistic amongst the sectors surveyed. The impact of the rupee's appreciation on service export realisations, particularly amongst respondents from the IT/ITes sectors could be a factor that weighed down sentiment in this sector.

Q4 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

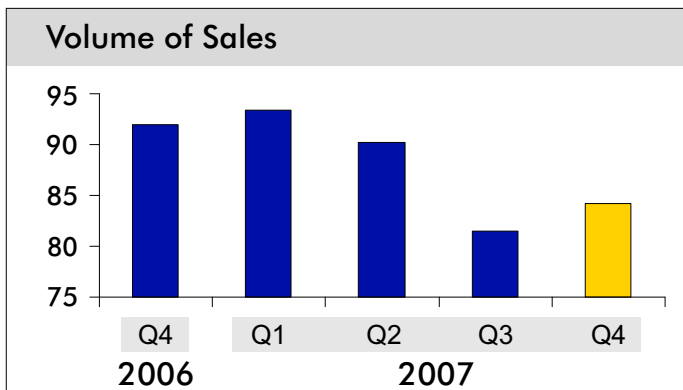
*The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets,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

### **Extract from September Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector expanded in September for the eighth consecutive month, while the overall economy grew for the 71st 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. "Manufacturing growth continued in September while some sectors of the economy are apparently struggling. The trend is toward slower growth in manufacturing as the rate of growth in both the New Orders Index and Production Index slowed. The sector is apparently in excellent shape with regard to inventories as the Inventories Index fell to 41.6%, indicating significant inventory liquidation, and the rate of growth in the Employment Index increased slightly in September. Overall, September looks like a good month for manufacturing."

Manufacturing grew at a slower rate in September as the PMI registered 52%, a decrease of 0.9 percentage point when compared to August's reading of 52.9%. ISM's New Orders Index registered 53.4% in September. The index is 1.9 percentage points lower than the 55.3% reported in August. Ten industries reported increases during September: Apparel, Leather & Allied Products; Petroleum & Coal Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Nonmetallic Mineral Products; Paper Products; Chemical Products; and Computer & Electronic Products. ISM's Production Index registered 54.6% in September, which is 1.5 percentage points lower than the 56.1% reported in August. September is the eighth consecutive month of production growth for manufacturers ISM's Production Index registered 54.6% in September, which is 1.5 percentage points lower than the 56.1% reported in August. Manufacturers' inventories registered 41.6% in September, which is 3.8 percentage points lower than August's reading of 45.4%.

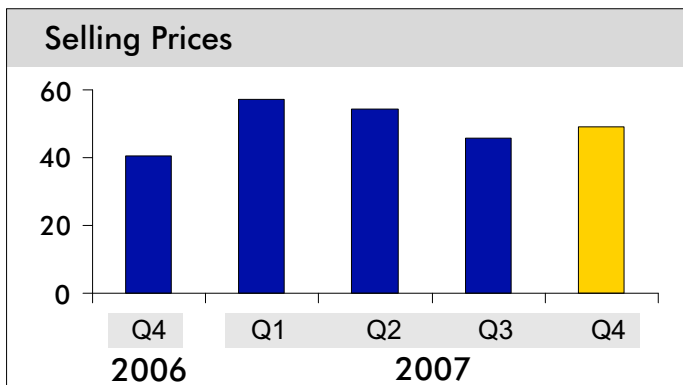
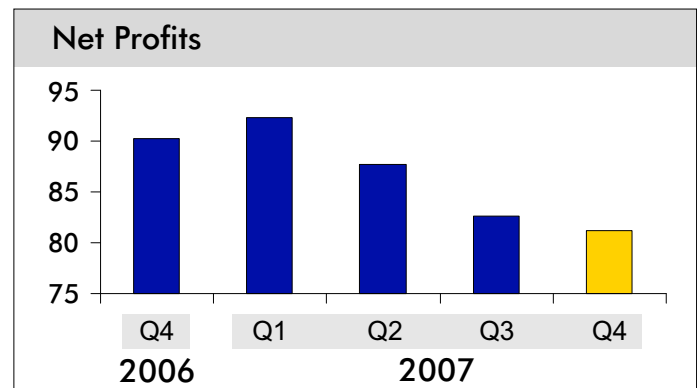


## Volume of Sales

Demand conditions are expected to be reasonably strong. Approximately 86% of the respondents expect sales volume to increase during the Oct – Dec 07 quarter while just 2% expect a decline in sales. The resultant Optimism Index for Volume of Sales stands at 84%, as compared to 81% in the previous quarter. Amongst the sectors, the capital goods and consumer goods segments were most optimistic about an increase in sales volume. The basic goods sector was least optimistic on this parameter, in contrast to the previous quarter where respondents from this sector were quite optimistic about growth in sales volume.

## Net Profits

The corporate sector remains optimistic on the profitability front. About 83% of the respondents anticipate an increase in profitability while just 2% expect their net profits to fall in the forthcoming quarter. Approximately 15% of respondents have indicated that they expect no change in net profits for the quarter. The resultant Optimism Index for Net Profits stands at 81%, a marginal decrease as compared with 82% recorded in the previous quarter. Once again, the capital goods and the consumer goods segment were most optimistic on this parameter while the basic goods sector and the services sector appeared less optimistic with regards to this parameter.

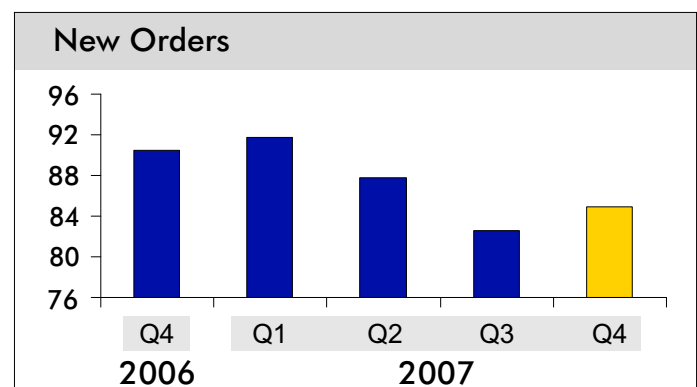


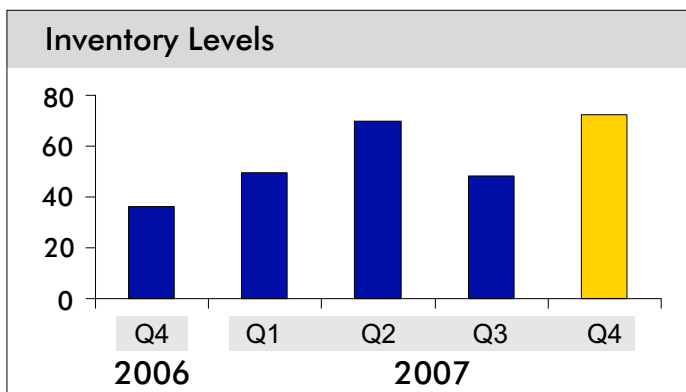
## Selling Prices

While about 55% of the respondents expect selling prices of their products to increase, about 6% expect prices to decline. The resultant Optimism Index for Selling Prices stands at 49%, reflecting an increase of about three percentage points from the previous quarter. The consumer durables segment was most optimistic while the intermediate goods and the services sectors were least optimistic on this parameter.

## New Orders

Approximately 88% of the respondents expect their order book position to improve (an increase of 4 percentage points from the previous quarter), a marginal 2% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders stands at 86%, as compared to 83% in the previous quarter. 98% of respondents from the capital goods sector expected an increase in orders placed. The consumer goods segment was also highly optimistic with more than 90% of respondents from both the consumer durables and the consumer non-durables segments expecting a rise in the number of orders placed.



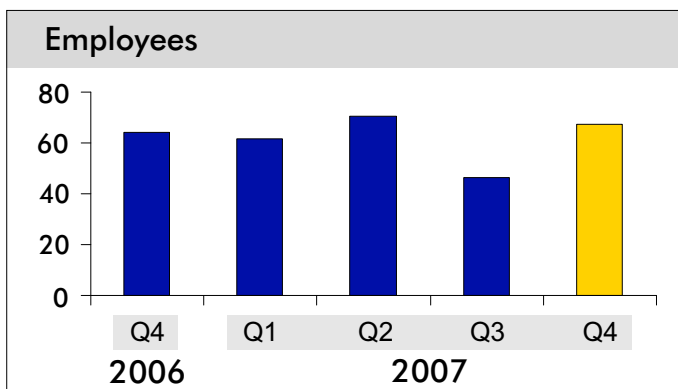


### Inventory Levels

75% of the respondents expect their level of stock to increase, about 3% expect their stock to decline and 22% expect to witness no change in their inventory levels in the Oct – Dec 07 quarter. The resultant Optimism Index for Inventory Levels stands at approximately 72%. The capital goods and consumer durables segments were more positive while the basic goods sector was the least optimistic, with about 54% of respondents expecting an increase in the level of stock during the Oct - Dec 07 quarter.

### Employees

For the Oct - Dec 07 quarter, approximately 68% of the respondents intend to increase the number of employees. A marginal 1% of the respondents expect a decline in the number of employees, while about 31% anticipate no significant change from the current situation. The resultant Optimism Index for Employees stands at 67% for the Oct - Dec 07 quarter. Among the sectors, the capital goods segment and the consumer durables sector showed a greater inclination towards increasing the number of employees.



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