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Dun & Bradstreet

Business Optimism Index

India | Q2 2008

April 2008

D&B Business Expectations Survey

Outlook for Q2 2008 - Key Highlights

- Composite Business Optimism Index down 9% q-o-q
- Services and Capital Goods sectors least optimistic
- Optimism Index for Net Profits at 14 quarter low
- 5 of the 6 Optimism Indices register decreases

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 2008

The D&B Business Optimism Index for Q2 2008 was conducted in March 2008 - at a time when sentiment was slightly cautious amidst concerns over a slowdown in economic growth and a global credit squeeze. GDP growth has slowed down from 9.3% during Q1 FY08 to 8.9% during Q2 FY08 and further to 8.4% during Q3 FY08. Index of Industrial Production growth has also slowed to an average of 6% during the last three months for which data is available (i.e. during Nov 07 to Jan 08) from an average of 9.9% during Apr-Oct 07. High interest rates, a strong rupee and a slowdown in global growth are some of the factors that are expected to have played a role in dampening growth. Further, even while economic growth has witnessed a slowdown, inflation has started to rear its head. WPI inflation crossed the RBI threshold limit of 5% for the first time in more than eight months towards the end of Feb, spurred by an increase in prices of primary articles, oils and metals. Supply side constraints, in particular, have pushed commodity prices higher in both domestic and global markets. Even though the Government has taken measures such as the reduction of customs duties on commodities like edible oils, these measures will have a limited impact, given that international prices of these commodities are high.

On the global front, tight liquidity conditions have increased investor risk aversion to emerging markets such as India and has raised concerns over a possible slowdown in FII inflows. In fact, the BSE Sensex declined by as much as 20% since the last survey conducted and FIIs were net sellers in equities to the tune of Rs 1.30 bn during the month of Mar 08. The BSE Capital Goods Index, in particular, has declined by about 30% since the last survey conducted in Dec 07.

Reflecting the sentiment prevailing in the economy, the Composite Business Optimism Index stands at 153.7, a decline of 9% as compared with the previous quarter. On a yearly basis, the Composite BOI declined by as much as 23.6%; however, this is in part due to the high base of the previous year. Based on the responses received, it was observed that five of the six optimism indices – volumes of sales, net profits, selling prices, new orders and inventory levels have declined as compared with the previous quarter. Amongst the sectors, the services sector and the capital goods sector were the least optimistic. Since a majority of the services sector respondents belong to the IT, financial services, broking houses and trade segments, it is possible that the strong rupee, a slowdown in global growth and the bearish sentiment in stock markets have dampened expectations of respondents from this sector. A number of firms have also postponed their capital raising plans on concerns that it would be difficult to garner adequate funds given the current bearish sentiment in stock markets. Further, with the global credit squeeze, firms' access to external funds has been limited while the domestic cost of capital remains high. Accordingly, with a few firms deferring their capacity expansion plans, it is possible that there is lower demand for certain types of capital goods. Further, with rising input costs, respondents from the capital goods sector are less optimistic on profit expectations. Q2 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

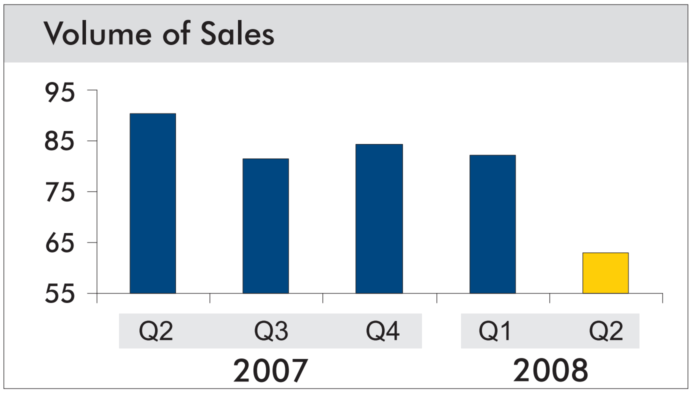
The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets,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

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

Economic activity in the manufacturing sector failed to grow in March, while the overall economy grew for the 77th 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 failed to grow in March as the PMI fell below 50 percent for the second consecutive month. This completes the weakest quarterly performance for the U.S. economy since Q2 of 2003. Manufacturers' order backlogs continue to erode as the New Orders Index failed to grow for the fourth consecutive month. Additionally, manufacturers continue to experience heavy cost pressures, as the prices they pay are still rising even with slower overall demand. Some manufacturers are still benefiting from strong export demand and continue to see growth in export orders."

Manufacturing failed to grow in March as the PMI registered 48.6 percent, which is an increase of 0.3 percentage point when compared to February's seasonally adjusted reading of 48.3 percent. ISM's New Orders Index registered 46.5 percent in March. The index is 2.6 percentage points lower than the seasonally adjusted 49.1 percent reported in February. ISM's Production Index declined to 48.7 percent in March, a decrease of 2 percentage points when compared to February's seasonally adjusted reading of 50.7 percent. The ISM Prices Index registered 83.5 percent in March, indicating manufacturers are paying higher prices on average when compared to February. This is the highest reading for the index since it registered 84.0 percent in October 2005. Manufacturers' inventories contracted in March as the Inventories Index registered 44.9 percent, which is 0.5 percentage point lower than February's seasonally adjusted reading of 45.4 percent. This is the 23rd consecutive month of inventory liquidation.

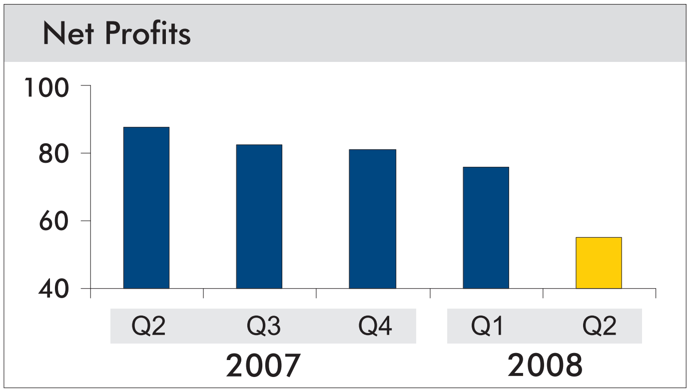


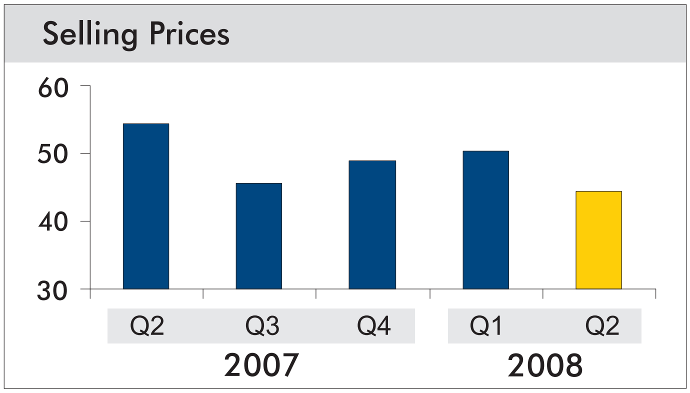
Volume of Sales

A fewer number of respondents expect demand conditions to remain strong during Q2 2008. While approximately 71% of the respondents expect sales volume to increase during the second quarter of 2008, as much as 8% expect a decline in sales. The resultant Optimism Index for Volume of Sales stands at 63%; this represents a 5 year low. Amongst the sectors, the services sector and the capital goods sector were the least optimistic; as much as 10% of respondents from the services sector expect a decrease in sales volumes during the Apr-Jun 08 quarter.

Net Profits

About 66% of the respondents anticipate an increase in profitability while about 11% expect their net profits to fall in the forthcoming quarter. The resultant Optimism Index for Net Profits stands at 55%(a 14 quarter low); this represents a decrease of as much as 21 percentage points as compared with the previous quarter. The intermediate goods and the basic segments were most optimistic on this parameter while the capital goods segment was once again less optimistic with regards to this parameter with 15% of respondents from this sector expecting a decline in profitability.



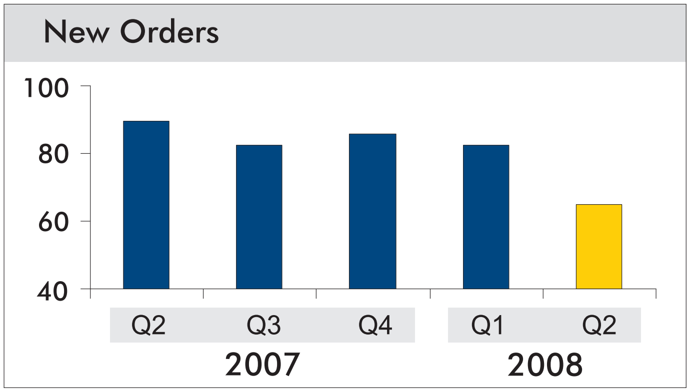


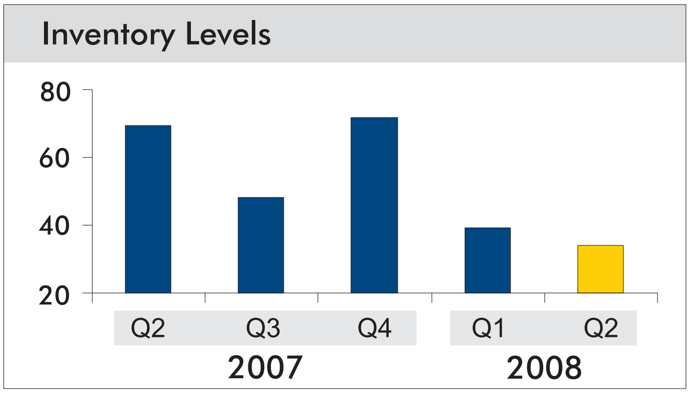
Selling Prices

While about 54% of the respondents expect selling prices of their products to increase, 9% expect prices to decline and about 37% of the respondents surveyed expect no change in selling prices. The resultant Optimism Index for Selling Prices stands at 45% as compared with 50% in the previous quarter. Less than 50% of respondents from the services sectors expect to witness an increase in selling prices. The consumer durables consumer-non durables and capital goods sectors were more optimistic with regard to this parameter with more than 60% of respondents from each of these sectors anticipating an increase in selling prices during the Apr-Jun 08 quarter.

New Orders

Approximately 72% of the respondents expect their order book position to improve and 7% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders stands at 65%; this represents a decrease of as much as 18 percentage points as compared to the previous quarter. The capital goods sector was the least optimistic while the intermediate goods sector remained highly optimistic with 89% of respondents expecting an increase in new orders placed during Q2 2008.



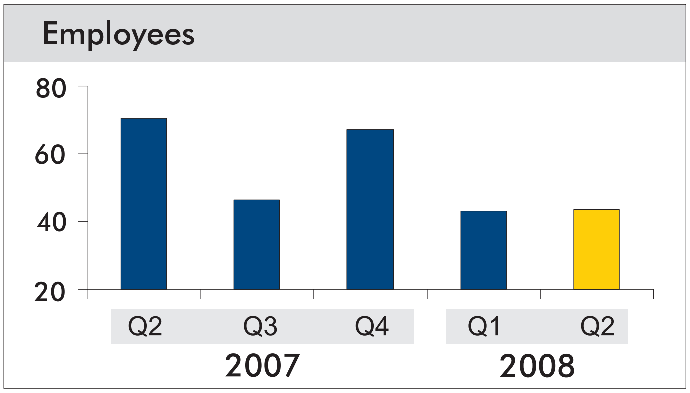


Inventory Levels

While about 48% of the respondents expect their level of stock to increase, about 38% expect to witness no change in their inventory levels during the Apr-Jun 08 quarter. As much as 14% expect their level of stock to decline during Q2 2008 as compared 11% during the previous quarter. The resultant Optimism Index for Inventory Levels stands at 34%. The consumer durables segment was the most optimistic with 54% expecting an increase in inventory levels during the Apr-Jun 08 quarter. (At the time of the last BOI survey, this sector was the least optimistic).

Employees

For the Apr-Jun 08 quarter, approximately 47% of the respondents intend to increase the number of employees. A marginal 3% of the respondents expect a decline in the number of employees. However, a majority of respondents anticipate no significant change from the current situation. About 50% do not expect to witness any change in employee levels. The resultant Optimism Index for Employees stands at 44% for the Apr – Jun 08 quarter, a marginal increase of 1 percentage point as compared with the previous quarter. Among the sectors, the basic goods sector showed a greater inclination towards increasing the number of employees.



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