



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q4 2010

October 2010

D&B Business Expectations Survey

Outlook for Q4 2010 - Key Highlights

- Composite Business Optimism Index touches a two and a half year high of 163.5, representing an increase of 9% (q-o-q)
- Optimism for Net profits stands at an eleven quarter high of 77%, an increase of 10 percentage points as compared to Q3 2010
- Five out of six Optimism Indices register increases
- Optimism Index for Employees remains unchanged compared to the previous quarter

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 of companies belonging to basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the services sectors is selected randomly from Dun & Bradstreet's commercial credit information file. 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: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventories and 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. We trust that you will find the D&B Optimism Index as 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 2010

D&B Business Optimism Index survey for Q4 2010 was conducted in September – at a time when optimism regarding the growth prospects of the Indian economy was gaining traction. Improving confidence in the domestic economy was very much evident in the domestic stock markets, which have bounced back near to their pre-crisis high levels. The BSE Sensex has risen by approximately 15.3% since the last survey conducted in Jun-10, drawing support from strong foreign fund inflows. In fact, during Sep-10, net FII inflows in equity stood at US\$ 5.4 bn as compared to US\$ 3.8 bn in Sep-09. India's robust economic growth coupled with better corporate results and increasing interest rate differential (between India and many developed countries) has attracted foreign funds into the domestic capital markets in the recent past.

The GDP growth of 8.8% during Q1 FY11 has underscored the robustness of the current recovery in the Indian economy. Moreover, a number of lead indicators including credit off-take, non-oil imports, commercial vehicle production, resource mobilisation in the primary capital market and capital goods production have shown signs of improvement in the recent months thereby making a case for continuance of the current growth momentum. Increase in bank credit growth (19.7% (y-o-y) as on 10-Sep-10 as against 13.4% during year-ago period) coupled with sustained improvement in QIP and IPO issues point towards gradual increase in demand for funds by the corporates and augur well for the future growth prospects of the economy. The growth in capital goods production and non-oil imports of 32.3% and 31.1% respectively (y-o-y average during May 10 - Jul 10) reflects some improvement in domestic investment as well as consumption demand. The persistent high levels of inflation have been responsible, to an extent, for the lagging demand, especially consumption demand.

Inflation continues to pose a significant risk to the Indian economy. Despite some moderation in the past few months, headline inflation continues to be extremely high at 8.5%

for Aug-10. With a view to anchoring inflationary expectations, the RBI raised both repo and reverse repo rates by 25 bps and 50 bps respectively in Sep-10, marking the third increase in policy rates during Q2 FY10. The lagged impact of monetary tightening measures by the RBI along with waning base effect, better prospects of agricultural output are expected to ease off inflationary pressures during the second half of the current fiscal. Expected moderation in inflation might provide some respite to the consumers thereby supporting domestic consumption demand. Moreover, given the forthcoming festive season, as well as expected improvement in the agricultural sector growth (thus helping bolster rural demand), prospects on the consumption front during the next few quarters seems positive.

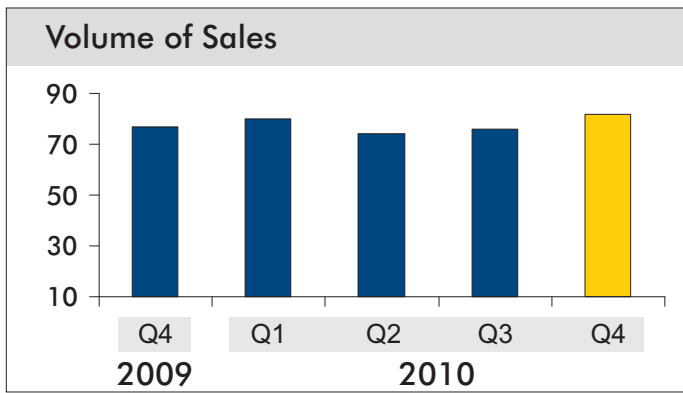
Reflecting the prevailing business sentiment, Composite Business Optimism Index for Q4 2010 rose to a two and a half year high of 163.5 from 143.2 in Q4 2009. This marks an increase of almost 14.2% (y-o-y). On a q-o-q basis, the index recorded an increase of 9% (q-o-q) as compared to 5% (q-o-q) in the previous quarter. Based on the responses received, it was observed that five out of the six optimism indices – namely, volume of sales, net profits, new orders, selling prices and inventory levels have registered an increase as compared to the previous quarter. Only one out of the six optimism indices – employee levels – remained unchanged as compared to Q3 2010. While the consumer durables and services sectors, in particular were relatively more optimistic about future business conditions, optimism in the consumer non-durables sector remained largely muted. High investment demand, also reflected in robust capital goods production during last few months, is likely to have supported the optimism of the respondents in the capital goods sector. The BSE Capital Goods index has also risen by almost 24.9% between 25-May-10 and 05-Oct-10. Optimism amongst respondents in the consumer durables sector can be attributed to expectations of increased demand during the festive season. 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 fourteenth consecutive month, and the overall economy grew for the seventeenth consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued by Norbert J. Ore, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "While the headline number shows relative strength this month as the PMI reading of 54.4 percent is still quite positive, the overall picture is less encouraging. The growth of new orders continued to slow, as the index is down significantly from its cyclical high of 65.9 percent (January 2010). Production is currently growing at a faster rate than new orders, but it typically lags and would be expected to weaken further in the fourth quarter. Manufacturing has enjoyed a stronger recovery than other sectors of the economy, but it appears that weaker growth is the expectation for the fourth quarter..."

ISM's New Orders Index registered 51.1 percent in September, which is a decrease of 2 percentage points when compared to the 53.1 percent reported in August. This is the fifteenth consecutive month of growth in the New Orders Index. ISM's Production Index registered 56.5 percent in September, which is a decrease of 3.4 percentage points from the August reading of 59.9 percent. Manufacturers' inventories grew in September as the Inventories Index registered 55.6 percent. The index is 4.2 percentage points higher than the 51.4 percent reported in August. The ISM Prices Index registered 70.5 percent in September, 9 percentage points higher than the 61.5 percent reported in August. ISM's Employment Index registered 56.5 percent in September, which is 3.9 percentage points lower than the 60.4 percent reported in August.

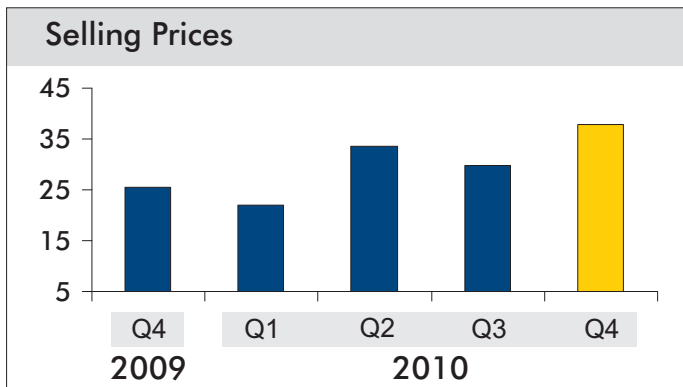


Volume of Sales

Demand conditions are expected to witness further improvement, with as many as 86% of the respondents anticipating an increase in their volume of sales during Q4 2010. While only 4% of the respondents anticipate volume of sales to decline, about 10% of the respondents expect volume of sales to remain unchanged during Q4 2010. The resultant Optimism for Volume of Sales stands at 82%, an increase of 6 percentage points as compared to Q3 2010. While demand conditions are expected to improve across all the sectors, the consumer durables and the intermediate goods sectors in particular are relatively more optimistic about this parameter.

Net Profits

Profit expectations of the corporates improved significantly during Q4 2010. As many as 81% of the respondents expect their net profits to increase during Q4 2010 (a 7 percentage points increase as compared to Q3 2010). While 4% of the respondents anticipate a decline in their net profits, around 15% of the respondents expect their profits to remain unchanged. The resultant Optimism for Net Profits stands at an eleven quarter high of 77% - an increase of almost 10 percentage points as compared to the previous quarter. Amongst the sectors, consumer durables and services were relatively more optimistic about their net profits in the forthcoming quarter.

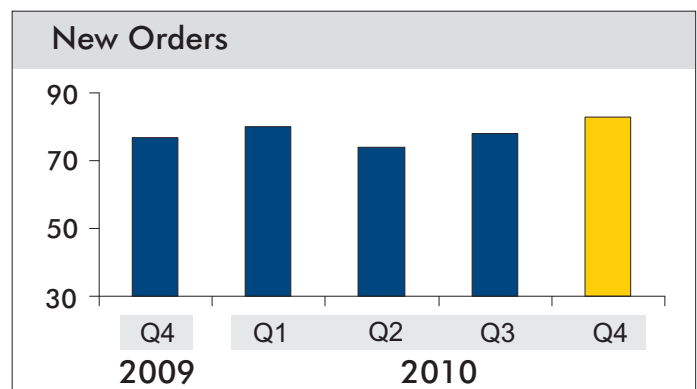


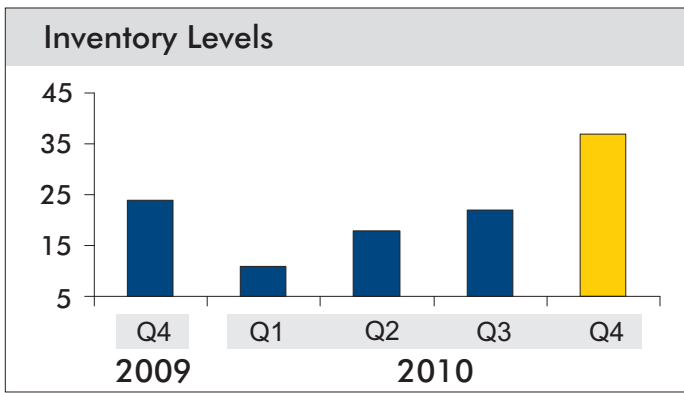
Selling Prices

Majority of the BOI respondents (51%) expect the selling prices of their products to remain unchanged during Q4 2010. While around 43% of the respondents anticipate an increase in the level of their selling prices, only 6% of the respondents expect selling prices of their products to decrease during Q4 2010. The resultant Optimism for Selling Prices stands at 37%, 9 percentage points increase as compared to the previous quarter. Amongst the sectors, the capital goods sector was least optimistic, with almost 13% of the respondents from this sector anticipating a decline in selling prices of their products.

New Orders

Demand conditions are expected to improve in the medium to long term period, with as many as 86% of the respondents anticipating an increase in their order book positions during Q4 2010. While only 3% of the respondents expect their order book positions to decline, remaining 11% anticipate no change in new orders received. The resultant Optimism for New Orders stands at an eleven quarter high of 83%, recording a 5 percentage points increase as compared to Q3 2010. Amongst the sectors, consumer durables and services sectors were relatively more optimistic with more than 90% of the respondents expecting an increase in the new orders placed.



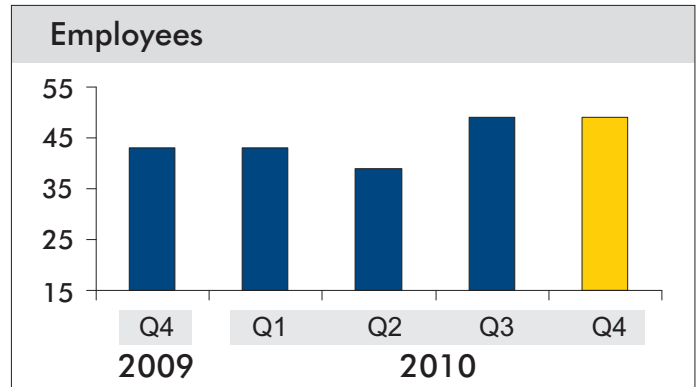


Inventory Levels

While about 47% of the respondents expect to witness an increase in their inventory levels during the Oct-Dec 10 quarter, as many as 43% of the respondents anticipate no significant change in their inventory levels. Around 10% of the respondents expect their level of stock to decline during Q4 2010. The resultant Optimism for Inventory Levels stands at 37%, a 15 basis points increase as compared to the previous quarter. Amongst the sectors, the respondents from the consumer non-durables sector are relatively more optimistic with respect to this parameter.

Employees

The employment scenario is expected to improve in the Oct-Dec 10 quarter, with as many as 53% of the respondents expecting the size of their work force to increase. While 43% of the respondents intend to keep the number of employees unchanged, 4% of the respondents anticipate a reduction in their workforce. The resultant Optimism for Employees stands at 49% - unchanged from the previous quarter. Amongst the sectors, services and basic goods sectors showed greater inclination towards increasing the number of employees.



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