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Dun & Bradstreet
Business Optimism Index

India | Q3 2011

July 2011

D&B Business Expectations Survey

Outlook for Q3 2011 - Key Highlights

- Composite Business Optimism Index for Q3 2011 declined by 21.7% (q-o-q) as compared to Q2 2011
- Composite Business Optimism Index decreases by 4.2% (y-o-y)
- Optimism for Net Profits stands at an eight-quarter low of 61%
- Each of the six 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 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 Q3 2011

The D&B Business Optimism Index for Q3 2011 was conducted in June 2011 - at a time when the Indian economy was facing numerous macro-headwinds, most notable of which were the stubbornness in domestic inflation and the consequential hike in interest rates. The uncertainty in global economy increased in Q2 2011 owing to high international crude oil prices and other commodity prices. All these forces have placed significant downward pressure on growth prospects of the Indian economy in general and industrial sector in particular.

Indications of deceleration in economic activity are becoming increasingly perceptible. The pace of GDP growth has slowed down over the course of FY11. GDP growth moderated to 7.8% in Q4 FY11 as compared to the 8.3% growth recorded in Q3 FY11. The slowdown stems from a moderation in domestic demand, as elevated inflationary pressures weighed on disposable incomes and household spending, while aggressive monetary policy tightening contributed to the dampening of investment activity. Gross fixed capital formation grew at a feeble 0.4% (y-o-y) in Q4 FY11 as compared to 7.8% in the previous quarter. Rising input costs and higher cost of borrowing caused industrial GDP growth to slow down to 6.1% in Q4 FY11 from 7.1% in Q3 FY11. Overall IIP growth, although highly volatile, has been gradually losing momentum over the last few months; the IIP grew by 6.3% during Apr-11after growing by 8.8% during Mar-11. Sluggish car sales, decline in cement output and lower finished steel production further vindicates fears regarding a moderation in growth.

WPI inflation rate continues to remain elevated. There have been sharp and frequent upward revisions to preliminary WPI data, signifying that actual inflation rate in April and May could be even higher. Non-food manufactured products inflation rate rose in May-11 after showing some moderation in Apr-11.

In the medium term, inflation will continue to be a major area of concern followed by fiscal risks. The recent increase in diesel price will eventually raise transport costs and exert pressure on inflation rate in the months ahead. This may necessitate further monetary policy tightening by the RBI. Particularly, anchoring inflation expectations at a low level will remain one of the most daunting challenges of monetary policy. The revenue loss owing to recent duty cuts on crude and oil products coupled with increasing oil subsidisation costs will have serious repercussions for the central government's fiscal deficit targets. Moreover, the risk on the revenue side could be accentuated by lower tax revenues owing to moderation in economic growth. Further, the development in the current domestic political scenario is expected to play a critical role in determining the growth prospects of Indian economy in near term.

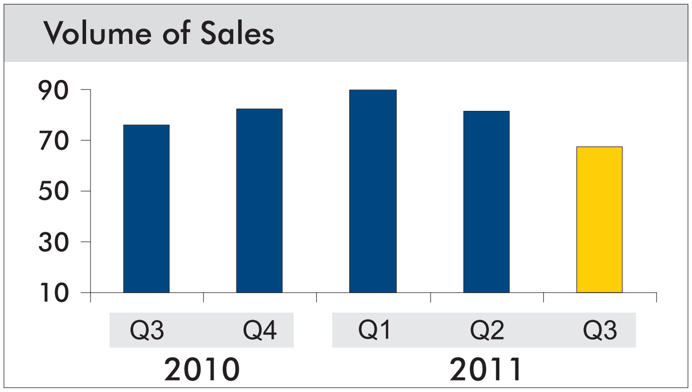
Reflecting the looming presence of limits to growth, Composite Business Optimism Index for Q3 2011 fell to 143.6, a decline of 21.7% (q-o-q) as compared to Q2 2011. After recording y-o-y growth for seven consecutive quarters, the index registered a decline of 4.2% in Q3 2011. Based on the responses received, it was observed that each of the six optimism indices – Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels and Employee Levels have registered a decrease as compared to Q2 2011. While the sentiment has been bearish across all the sectors, the basic goods and capital goods sector in particular were the least optimistic. Higher input costs and expectations of lower demand for finished goods across sectors could have weighed down the sentiment of respondents in the basic goods sector. With the hardening of interest rates, companies might defer capital expansion plan, which in turn is expected to take a toll on the capital goods sector. This is reflected in the restrained optimism in the capital goods sector. The Indian corporate sector's subdued confidence regarding profit expectations hints towards the impending pressure on business margins in the quarter ahead. The Optimism Index for Net Profits is at an eight-quarter low. The uncertainty prevalent in the business environment has led to India Inc adopting a wait and watch policy with regard to hiring. Q3 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 June Manufacturing ISM Report on Business ® (US Economy)

Economic activity in the manufacturing sector expanded in June for the 23rd consecutive month, and the overall economy grew for the 25th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued on July 1, 2011 by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The PMI registered 55.3 percent, an increase of 1.8 percentage points from May, indicating expansion in the manufacturing sector for the 23rd consecutive month. New orders and production were both modestly up from last month, and employment showed continued strength with an increase of 1.7 percentage points to 59.9 percent. The rate of increase in prices slowed for the second consecutive month, dropping 8.5 percentage points in June to 68 percent..."

Manufacturing continued its growth in June as the PMI registered 55.3 percent, an increase of 1.8 percentage points when compared to May's reading of 53.5 percent. ISM's New Orders Index registered 51.6 percent in June, which is an increase of 0.6 percentage point when compared to the 51 percent reported in May. ISM's Production Index registered 54.5 percent in June, which is an increase of 0.5 percentage point when compared to the May reading of 54 percent. The Inventories Index registered 54.1 percent in June, 5.4 percentage points higher than the 48.7 percent reported in May. The ISM Prices Index registered 68 percent in June, 8.5 percentage points lower than the 76.5 percent reported in May. This is the second consecutive month the Prices Index has registered below 80 percent since December 2010, and is the 24th consecutive month the index has registered above 50 percent. ISM's Employment Index registered 59.9 percent in June, which is 1.7 percentage points higher than the 58.2 percent reported in May.

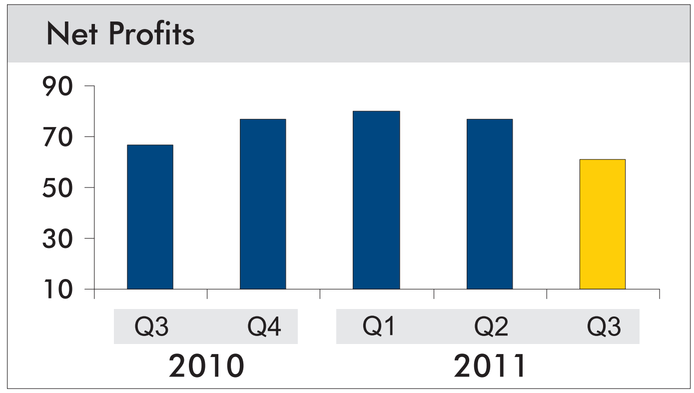


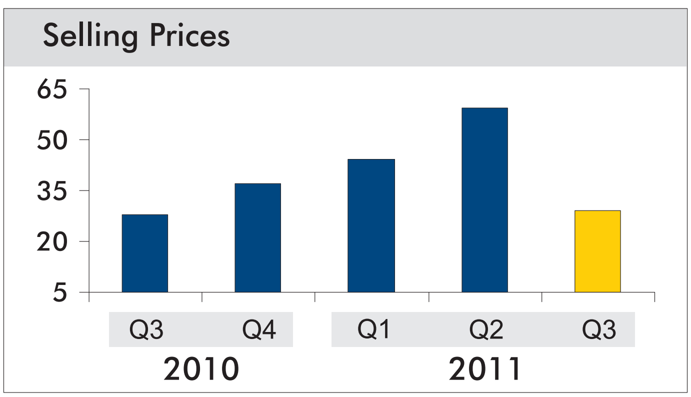
Volume of Sales

The optimism for volume of sales is lower when compared to the preceding seven quarters. Around 75% of the respondents expect their volume of sales to increase, while 17% anticipate it to remain unchanged. The remaining 8% expect sales volume to decline during Q3 2011. The resultant Optimism for Volume of Sales stands at 67% - a decrease of 14 percentage points compared to Q2 2011. On a y-o-y basis, the resultant Optimism is 9 percentage points lower. Amongst the sectors, consumer durables and intermediate goods sectors were relatively more optimistic with respect to this parameter.

Net Profits

The cautiousness in optimism of companies on the profit front is reflected in the resultant Optimism for Net Profits (61%), which stands at an eight-quarter low in Q3 2011. Around 69% of the respondents expect their net profits to increase. At the same time, a significant 23% of the respondents anticipate their net profits to remain unchanged, while the remaining 8% expect a decline in net profits. Amongst the sectors, the intermediate goods sector was most optimistic, with 89% of the respondents expecting an increase in their net profits. The basic goods sector was relatively less optimistic, with only 51% of the respondents anticipating increase in net profits.



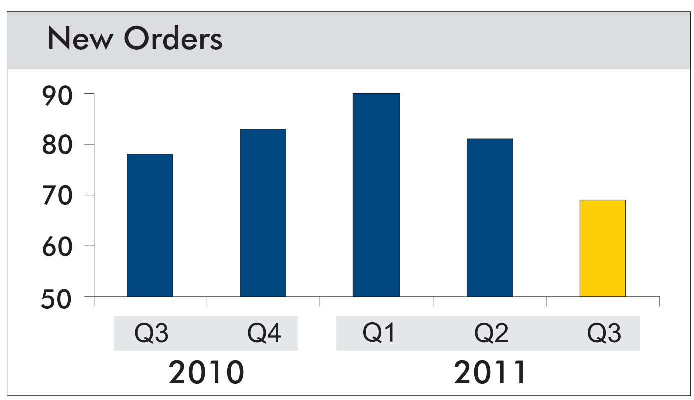


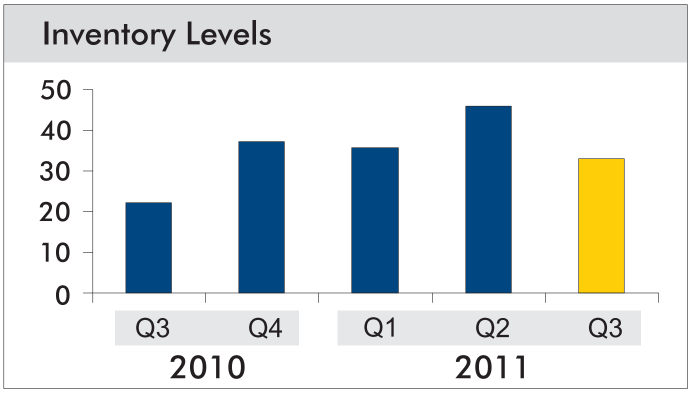
Selling Prices

Majority of the respondents (53%) do not expect the selling prices of their products to change during Q3 2011, reflecting the subdued optimism on the demand front. While 38% of the respondents anticipate selling prices to increase, 9% of the respondents expect selling prices to decline. The resultant Optimism for Selling Prices at 29% is 30 percentage points lower as compared to Q2 2011. Amongst the sectors, capital goods and intermediate goods sectors were relatively more optimistic regarding this parameter.

New Orders

Nearly 75% of the respondents expect improvement in their order book position during Q3 2011. While 6% of the respondents expect new orders to decline, the remaining 19% expect no change in their order book position. The resultant Optimism for New Orders stands at 69% – a decrease of 12 percentage points compared to Q2 2011. The optimism for New Orders is lower even when compared to Q3 2010 level. The intermediate and consumer non-durable sectors are relatively more optimistic, with 83% and 80% of the respondents expecting their order book position to improve, respectively.



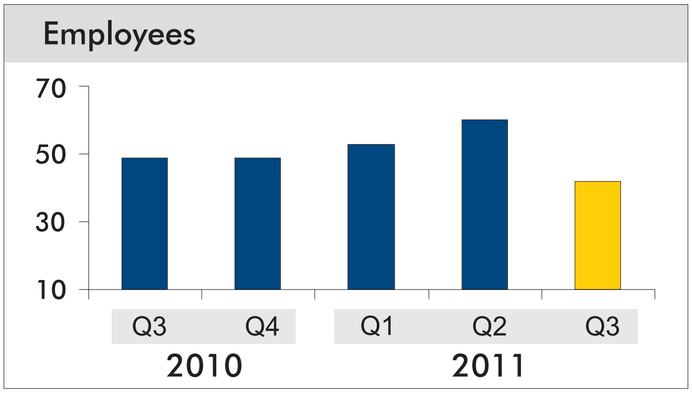


Inventory Levels

Approximately 45% of the respondents expect the level of inventory to increase during Q3 2011, while 12% of the respondents expect their level of stock to decline. The remaining 43% expect the level of stock to remain unchanged. The resultant Optimism for Inventory Level stands at 33% – an increase of 11 percentage points when compared to Q3 2010 level. Amongst the sectors, the basic goods sector was relatively less optimistic with regards to this parameter.

Employees

Nearly half of the respondents (48%) anticipate no change in the size of their workforce employed during Q3 2011. Approximately 47% of the respondents anticipate the size of their workforce to increase, while about 5% of the respondents anticipate the number of employees to reduce. The resultant Optimism for Employees stands at 42%, a decrease of 18 percentage points when compared to the previous quarter. Amongst the sectors, services and consumer durables sectors showed relatively greater inclination towards increasing the number of employees.



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