



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q1 2010

January 2010

D&B Business Expectations Survey

Outlook for Q1 2010 - Key Highlights

- Composite Business Optimism Index increases by as much as 43.4% (y-o-y)
- Optimism Index for Net Profits registers an increase of 10 percentage points (q-o-q)
- Optimism for Volume of sales stands at 80%, an increase of 3 percentage points as compared to Q4 2009

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 q-o-q changes.

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 Q1 2010

D&B Business Optimism Index survey for Q1 2010 was conducted in December- at a time when optimism in the overall economic environment was gathering strength, amidst pick up in GDP growth coupled with sustained increase in industrial production. The concerns over the Dubai debt crisis, which were looming in the initial period of the survey, also subsided towards the end of the survey period. A confluence of factors including improving domestic demand, surge in domestic stock markets, uptick in advance tax collection, improving employment situation, increased capital inflows and stabilising export demand points to the fact that the Indian economy is on the revival path. The robust GDP growth of 7.9% during Q2 FY10 as compared to 6.1% in Q1 FY10 reiterates this fact.

Moreover, robust growth in IIP in the last few months points to the fact that industrial activity is gaining momentum backed by improving domestic demand conditions. The Government final consumption expenditure grew by around 26.9% during Q2 FY10. The growth in private final consumption expenditure also increased to 5.63% in Q2 FY10 as compared to 1.63% in Q1 FY10 and augurs well for the economy going forward. Further, the employment scenario has also witnessed substantial improvement in the recent past and is likely to aid further improvement in domestic demand conditions. Improvement in IIP for capital goods, which grew by 12.2% during Oct-09, indicates improving investment demand. Export demand has also shown some signs of stability in the last few months. Exports grew by 18.2% (y-o-y; US\$ terms) during Nov-09, marking a reversal from the declining trend that had set in since Oct-08. However, the sharp rise in the WPI inflation, emanating from the increase in prices of primary food articles, has emerged as a major concern in the recent past. The WPI inflation surged to 4.8% (y-o-y) during Nov-09 from 1.3% in Oct-09. The mounting inflationary pressures have fuelled the anticipation

regarding reversal in accommodative monetary policy by the RBI and subsequent hardening of interest rates.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q1 2010 witnessed an increase of as much as 43.4% (y-o-y) as compared to 3% (y-o-y) in Q4 2009. While this could be partly attributed to the low base effect, it also points towards improving corporate optimism. However, the Composite Business Optimism Index for Q1 2010 stands at 137.3, lower compared to 143.2 in Q4 2009. This need not be viewed as an indication of moderation in business optimism, given that on a q-o-q basis, the optimism for most of the parameters have improved barring selling prices and inventory levels. Moreover, comparatively lower optimism in the level of selling prices and inventory is an outcome of majority of the respondents expecting selling prices and inventory levels to remain unchanged rather than to decline. This also signifies the stabilising business sentiment prevalent in the economy. While the Optimism for volume of sales, net profits and new order has increased, the Optimism for employee levels has remained unchanged during Q1 2010 compared to Q4 2009. Although optimism has been spread across all the sectors, the consumer non-durables, services, capital and basic goods sector in particular were relatively more optimistic. Improvement in domestic demand conditions as well as employment scenario is likely to have aided the sentiment of the respondents from the consumer non-durables sector. Increased thrust on infrastructure development by the government coupled with improving business sentiment in most of the sectors might have supported the sentiment of the capital and basic goods sector.

Q1 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

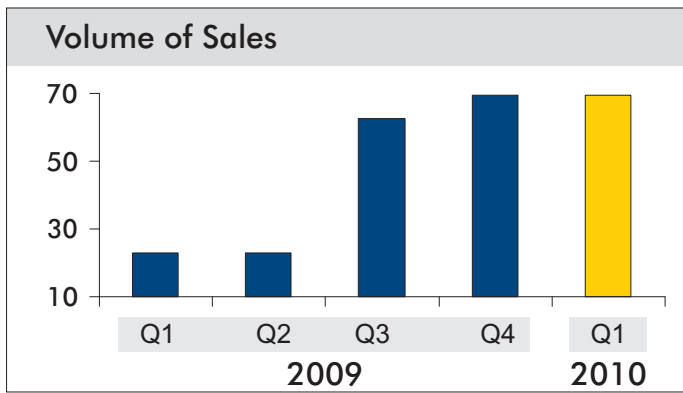
The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets,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

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

Economic activity in the manufacturing sector expanded in December for the fifth consecutive month, and the overall economy grew for the eighth 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, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The manufacturing sector grew for the fifth consecutive month in December as the PMI rose to 55.9 percent, its highest reading since April 2006 when it registered 56 percent... This month's report is quite strong as both the New Orders and Production Indexes are above 60 percent. Overall, the recovery in manufacturing is continuing, but there are still some industries mired in the downturn as evidenced by the seven industries still in decline."

Manufacturing growth accelerated in December as the PMI registered 55.9 percent, an increase of 2.3 percentage points when compared to November's reading of 53.6 percent, indicating continuing recovery in the sector at a faster rate of growth. This is the fifth consecutive month of growth in the manufacturing sector. ISM's New Orders Index registered 65.5 percent in December, 5.2 percentage points higher than the 60.3 percent registered in November. This is the sixth consecutive month of growth in the New Orders Index. ISM's Production Index registered 61.8 percent in December, which is an increase of 1.9 percentage points from the November reading of 59.9 percent. Manufacturers' inventories contracted at a slower rate in December as the Inventories Index registered 43.4 percent. The index is 2.1 percentage points higher than the November reading of 41.3 percent. The ISM Prices Index registered 61.5 percent in December, 6.5 percentage points higher than the 55 percent reported in November. ISM's Employment Index registered 52 percent in December, which is 1.2 percentage points higher than the 50.8 percent reported in November.

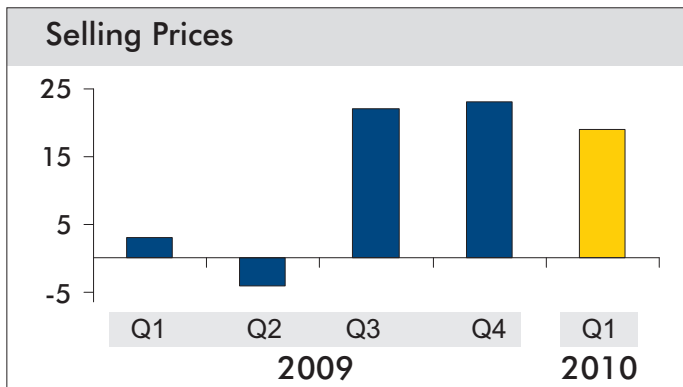
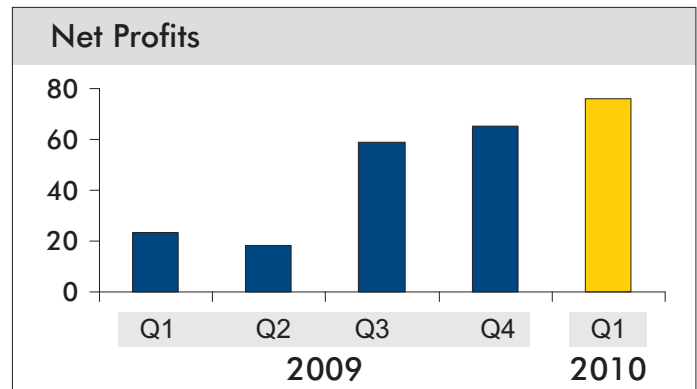


Volume of Sales

Majority of the BOI respondents expect demand conditions to improve in the forthcoming quarter. While as many as 83% of the respondents anticipate an increase in sales volume, around 3% of the respondents anticipate a decrease in sales during Q1 2010. Around 14% of the respondents expect the sales volume to remain unchanged. The resultant Optimism for Volume of sales stands at 80%, an increase of 3 percentage points as compared to Q4 2009. While demand conditions are expected to improve across all the sectors, the consumer non-durables sector in particular was more optimistic with around 91% of the respondents expecting an increase in volume of sales.

Net Profits

Profit expectations of the Indian corporate sector improved further, with the resultant Optimism index for Net Profits recording an increase of 10 percentage points during Q1 2010 as compared to Q4 2009. While as many as 79% of the respondents expect their net profits to increase, about 3% of the respondents are anticipating a fall in their net profits during Q1 2010. Around 18% of the respondents expect no change in net profits during Q1 2010. The resultant Optimism for Net Profits stands at 76% as compared to 66% in Q4 2009. Amongst the sectors, consumer non-durables goods, basic goods and services sectors were relatively more optimistic about net profits.

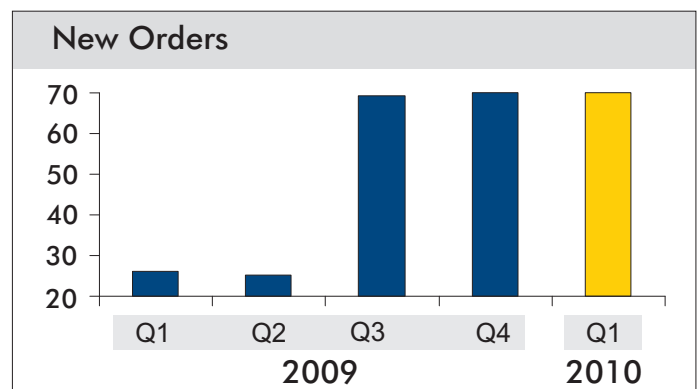


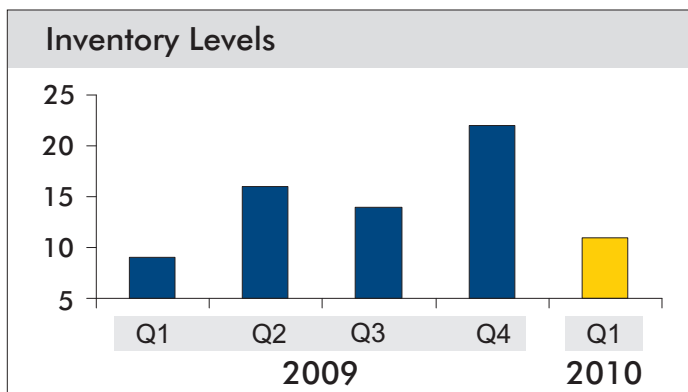
Selling Prices

Majority of the respondents from all the sectors expect no significant change in the prevailing prices during Q1 2010. About 63% of the respondents do not expect to witness any change in selling price of their products. While about 28% of the respondents expect selling prices of their products to increase, about 9% expect to witness a decline in their selling prices during Q1 2010. The resultant Optimism for Selling Prices stands at 19% as compared to 23% in Q4 2009. The Basic goods and intermediate goods sectors were least optimistic about this parameter.

New Orders

Demand conditions are expected to witness significant improvement in the medium to long term, with as many as 83% of the respondents anticipating their order book position to improve. While around 3% of the respondents expect a decrease in the number of new orders, about 14% expect no change in their order book position during Q1 2010. The resultant Optimism for New Orders stands at 80%, an increase of around 3 percentage points as compared to Q4 2009. Amongst the sectors, consumer non-durable and services sectors were relatively more optimistic.



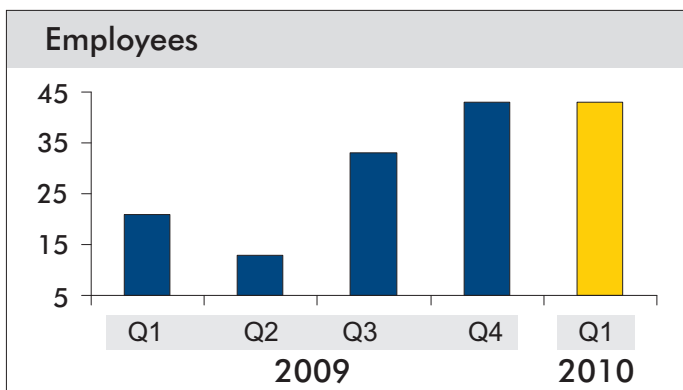


Inventory Levels

While around 29% of the respondents expect to witness an increase in their inventory levels during Jan-Mar 10 quarter, as many as 53% of the respondents anticipate no significant change from the current situation. Almost 18% of the respondents expect their level of stock to decline in the Jan-Mar 10 quarter. The resultant Optimism for Inventory Levels stands at approximately 11%, reflecting a decline of about 13 percentage points from the previous quarter. Among the sectors, the respondents from the consumer durables, consumer non-durables, and intermediate goods sector were relatively less optimistic, with respect to this parameter.

Employees

The employment scenario is expected to improve with only 1% of the respondents expecting a decline in number of employees. While as many as 44% of the respondents anticipate an increase in number of employees during Q1 2010, a majority (55%) of the respondents intend to keep the number of employees unchanged. The resultant Optimism for Employees stands at 43% for the Jan-Mar 10 quarter, unchanged compared with the previous quarter. Among the sectors, the basic goods and services sectors showed a greater inclination towards increasing the number of employees.



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