



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q3 2010

July 2010

D&B Business Expectations Survey

Outlook for Q3 2010 - Key Highlights

- Composite Business Optimism Index touches a two year high of 150.0, representing an increase of 5% (q-o-q)
- Optimism for Volume of sales stands at 76%, an increase of 2 percentage points as compared to Q2 2010
- Optimism index for Employees registers an increase of 10 percentage points (q-o-q)

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 2010

D&B Business Optimism Index survey for Q3 2010 was conducted in June- at a time when overall economic activity was gathering strength amidst pick up in industrial production, stabilising domestic consumption demand, robust investment demand and increase in imports and exports. However, concerns regarding mounting inflation and fallout of the debt crisis in some European countries had also surfaced during this period. The strong GDP growth of 8.6% during Q4 FY10 reflects the faster pace of recovery in the Indian economy. The striking feature of the recent growth trend has been the performance of the industrial sector. The Index of industrial production has registered double digit growth for over seven months in a row. Several other factors such as up-tick in bank credit, increase in auto sales, pickup in growth of imports and exports reiterates that the Indian economy has a strong foothold on the growth path.

On the external front while exports and imports have recorded substantial improvement in the last few months, a major concern that has emerged is the extreme volatility in the rupee market. Increased risk aversion amongst foreign investors and weakening of Euro against US Dollar following the emergence of debt crisis in some European countries has led to higher volatility in the rupee value. High volatility in the rupee market is specially a cause for concern as it could impact exporters (who are beginning to see some signs of revival), and challenge the task of exchange rate risk management.

On the domestic front, any irregularity in the advancement of monsoon could prove to be a major downside risk to growth and upside risk to inflation. While the monsoon is expected to be near normal during this season, it has been 1.6% below its long period average during the month of June. The surge in inflation, which is widespread and no longer driven by high food price, has been another worrying factor in the recent past. The recent deregulation of fuel prices would add to the already mounting inflationary pressures. However, the timely policy action of the RBI (25 bps hike in Repo and Reverse Repo each) is

likely to combat any demand side pressures on the inflation front. Nonetheless, it is also indicative of higher interest rate scenario going forward.

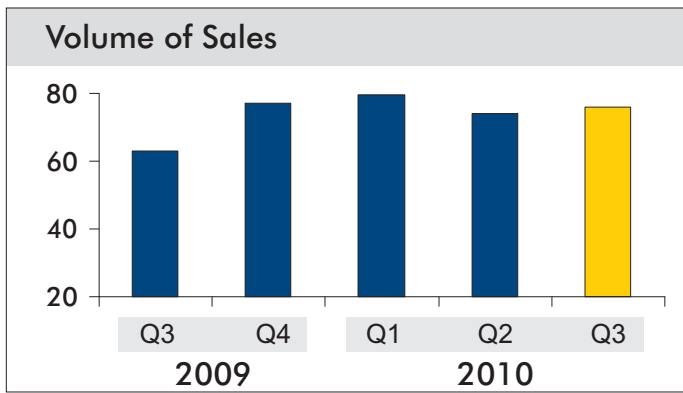
Reflecting the prevailing business sentiment, Composite Business Optimism Index for Q3 2010 rose to a two-year high of 150.0 from 132.1 in Q3 2009. This marks an increase of almost 13.6% (y-o-y). On a q-o-q basis, the index recorded an increase of 5% (q-o-q) as compared to 3.8% (q-o-q) in the previous 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, inventory levels and employee levels have registered an increase as compared to Q2 2010. Only one out of the six optimism indices – selling prices – declined by 4 percentage points as compared to Q2 2010. It is important to note here that the impact of the recent fuel price hike has not been fully factored in the survey responses as majority of the survey responses were captured before the deregulation announcement on 25-Jun-2010. However, lower optimism regarding the level of selling prices in some part do point to the reluctance on the part of corporates to fully pass on the high input costs to the consumers as demand is still in recovery mode. This is also reflected in the moderate optimism for net profit parameter at a time when optimism regarding the volume of sales and new orders is relatively high. While the capital goods, consumer durables and services sector, in particular were relatively more optimistic about future business conditions, optimism in the consumer non-durable sector remained largely muted. Strong investments in infrastructure and construction sectors coupled with increase in new project announcements by corporates might have boosted the confidence of respondents from the capital goods sector. High inflation, especially in food prices which affects the purchasing power of the lower income group, is likely to have restrained the optimism in the consumer non-durable segment. 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 eleventh consecutive month, and the overall economy grew for the fourteenth 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 continued to grow during June; however, the rate of growth as indicated by the PMI slowed when compared to May. The lower reading for the PMI came from a slowing in the New Orders and Production Indexes. We are now 11 months into the manufacturing recovery, and given the robust nature of recent growth, it is not surprising that we would see a slower rate of growth at this time. The sector appears to be solidly entrenched in the recovery. Comments from the respondents remain generally positive, but expectations have been that the second half of the year will not be as strong in terms of the rate of growth, and June appears to validate that forecast."

Manufacturing growth decelerated in June as the PMI registered 56.2 percent, a decrease of 3.5 percentage points when compared to May's reading of 59.7 percent, indicating a moderation in the sector. ISM's New Orders Index registered 58.5 percent in June, 7.2 percentage points lower than the 65.7 percent registered in May. ISM's Production Index registered 61.4 percent in June, which is a decrease of 5.2 percentage points from May's reading of 66.6 percent. Manufacturers' inventories contracted in June for the third consecutive month as the Inventories Index registered 45.8 percent. The index is 0.2 percentage point higher than 45.6 percent reported in May. The ISM Prices Index registered 57 percent in June, 20.5 percentage points lower than 77.5 percent reported in May. ISM's Employment Index registered 57.8 percent in June, which is 2.0 percentage points lower than the 59.8 percent reported in May.

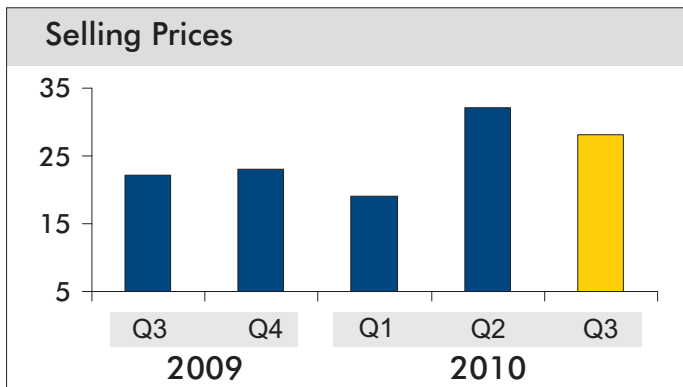
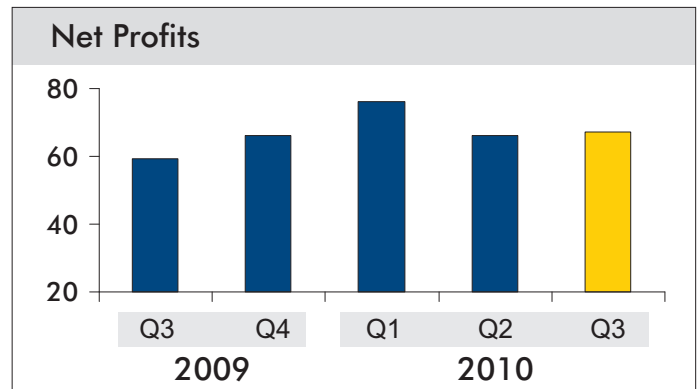


Volume of Sales

Majority of the BOI respondents expect demand conditions to improve in the forthcoming quarter. While 81% of the respondents expect an increase in volume of sales, 5% of the respondents anticipate volume of sales to decline in Q3 2010. Around 14% of the respondents expect volume of sales to remain unchanged. The resultant Optimism for Volume of Sales stands at 76%, an increase of 2 percentage points as compared to the previous quarter. While demand conditions are expected to improve across all the sectors, the capital goods 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 corporates remained muted, with the resultant Optimism for Net Profits recording a marginal increase of 1 percentage point during Q3 2010 as compared to Q2 2010. However, the resultant Optimism for Net Profits, which stands at 67%, recorded an 8 percentage points increase as compared to Q3 2009. While 74% of the respondents anticipate an increase in their net profits during Q3 2010, 7% of the respondents expect net profits to decline. Almost 19% of the respondents expect net profits to remain unchanged. Among the sectors, the intermediate goods and capital goods sectors were relatively more optimistic about this parameter.

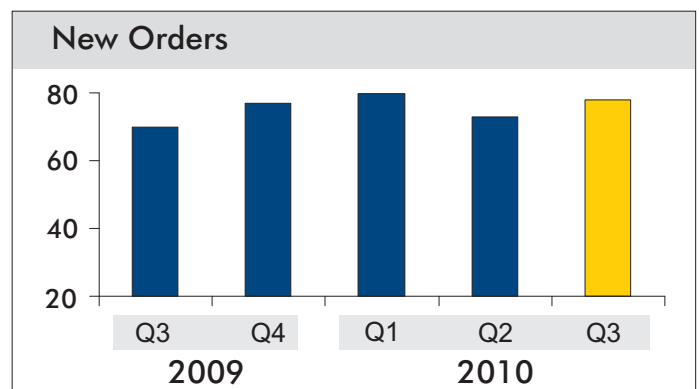


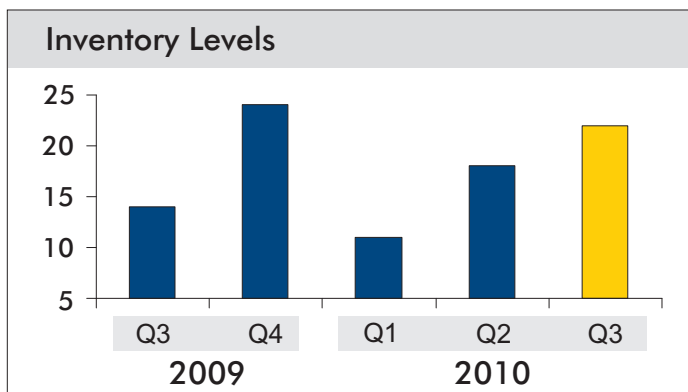
Selling Prices

Majority of the respondents (52%) from all the sectors anticipate no change in the selling prices of their products during the Q3 2010. While about 38% of the respondents expect selling prices of their products to increase in Q3 2010, 10% of the respondents expect a decline in the level of selling prices. The resultant Optimism for Selling Prices stands at 28% during Q3 2010, 4 percentage points lower compared to the previous quarter. Among the sectors, the consumer non-durables sector was least optimistic, with only 20% of the respondents anticipating an increase in the selling prices of their products.

New Orders

Demand conditions are expected to witness significant improvement in the medium to long term, with as many as 81% of the respondents anticipating their order book position to improve. While 16% of the respondents anticipate no change in their order book positions, only 3% of the respondents expect a decline in new orders received during Q3 2010. The resultant Optimism for New Orders stands at 78% for Q3 2010, an increase of 5 percentage points compared to the previous quarter. The consumer durables and capital goods sectors were relatively more optimistic with more than 85% of the respondents expecting an increase in new orders placed during Q3 2010.



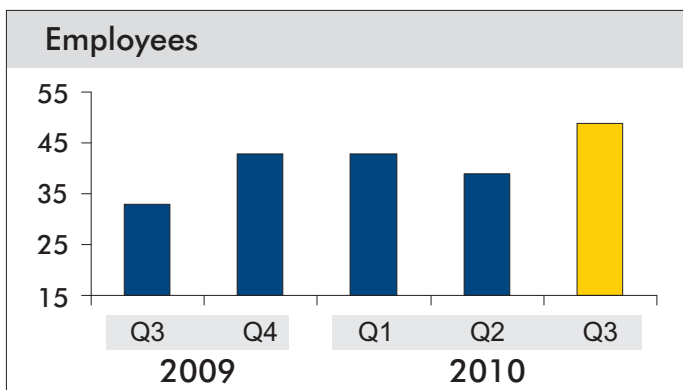


Inventory Levels

While around 39% of the respondents expect to witness an increase in their inventory levels during Jul-Sep 2010 quarter, as many as 44% of the respondents anticipate no significant change from the current situation. Almost 17% of the respondents expect their level of stock to decline during Q3 2010. The resultant Optimism for Inventory Levels stands at 22%, reflecting an increase of about 4 percentage points compared to the previous quarter. The intermediate goods sector was the least optimistic sector, with only 11% of the respondents expecting an increase in this parameter.

Employees

The employment scenario is expected to improve in the Jul-Sep 10 quarter, with majority (52%) of the respondents expecting the size of their work force to increase and only 3% of the respondents expect a reduction in the work force. The remaining 45% of the respondents intend to keep the number of employees unchanged. The resultant Optimism for Employees stands at 49% for Q3 2010 recording an increase of almost 10 percentage points compared to the previous quarter. Among the sectors, the services, capital goods and intermediate goods sectors showed a greater inclination towards increasing the number of employees.



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