



Decide with Confidence

Dun & Bradstreet Business Optimism Index

India | Q4 2009

October 2009

D&B Business Expectations Survey

Outlook for Q4 2009 - Key Highlights

- Composite Business Optimism Index increases by 3% (y-o-y) - after declining for 7 consecutive quarters (y-o-y)
- Optimism Index for Volume of Sales registers an increase of 14 percentage points (q-o-q)
- All six Optimism Indices register increases

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 Q4 2009

D&B Business Optimism Index survey for Q4 2009 was conducted in September- at a time when business sentiment was improving amidst resilient growth in GDP coupled with sustained increase in industrial production and gradually recuperating demand conditions. India's GDP clocked a growth of 6.1% during Q1 FY10 as compared to 5.8% in Q4 FY09, pointing towards gradually improving economic activity. The performance of the industrial sector during Q1 FY10 showed some improvement after experiencing significant slowdown during the second half of FY09. However, the services sector growth witnessed some moderation owing to lagged impact of the earlier industrial slowdown on services demand and slowdown in growth of `Community, social and personal services` sub-sector. Improvement in industrial activity has continued as is indicated by the 6.8% growth in the Index of Industrial Production during Jul-09 as compared to 6.4% during Jul-08. Further, the positive growth in 15 out of 17 industrial groups during Jul-09 also provides a glimmer of hope for a sustained industrial recovery. Moreover, double digit growth in consumer durables segment for the fourth consecutive month and sustained growth in intermediate goods production indicates improving demand conditions and augurs well for the industrial sector. The expected increase in demand in the forthcoming festive season is also likely to have supported the robust growth in the consumer durables segment.

However, with external demand continuing to remain muted, India's exports declined for the eleventh consecutive month during Aug-09. Along with muted external demand, there are some other downside risks that have emerged, which could dampen business sentiment going forward. The drought conditions being experienced in almost 299 districts (as on 11-Sep-09) in India is expected to adversely affect agriculture production. A lower agriculture growth might have a negative impact on the rural consumption demand and subsequently on the industrial sector. The other emerging concern has been the rapidly increasing inflationary pressures. High prices of primary food articles, surging international food and crude oil prices

coupled with expected decline in the domestic agriculture production have exerted significant upward pressure on inflation. Despite the emergence of some concerns on the growth front, corporates have turned more optimistic about the overall business situation. Growth in industrial production, resumption in the FII inflows, largely bullish sentiments in the domestic stock markets and improving investment climate have supported the corporate sentiment. During H1 FY10, FIIs have been net buyers in equities to the tune of US\$ 13.37 bn. Drawing support from the strong foreign fund flows and improving domestic economic activity, the BSE Sensex crossed the 17,000 mark during Sep-09 - the first time since May-08.

Reflecting the prevailing business sentiment, Composite Business Optimism Index for Q4 2009 recorded an increase of 3% (y-o-y) - after declining for the last seven quarters (y-o-y). The Composite BOI for Q4 2009 increased to 143.2 from 132.1 in Q3 2009. On a q-o-q basis, the Composite BOI has grown by around 8.4% during Q4 2009 as compared to 40.8% (q-o-q) during Q3 2009. While this could be partly attributed to the high base effect, it also points towards stabilising corporate optimism. Based on the responses received, it was observed that all six optimism indices – namely, volume of sales, net profits, selling prices, new orders, inventory levels and employee levels have registered an increase as compared to the previous quarter. While optimism has been spread across all the sectors, the consumer non-durables, consumer durables, capital goods and intermediate goods sector were relatively more optimistic. The expected increase in demand in the forthcoming festive season might have supported the sentiments in the consumer durables and consumer non-durables sectors. Further, recent increase in infrastructure spending is likely to have provided the much needed impetus to the capital goods sectors. Moreover, improving production in most of the industries is likely to have boosted sentiments in the intermediate goods sector.

Q4 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

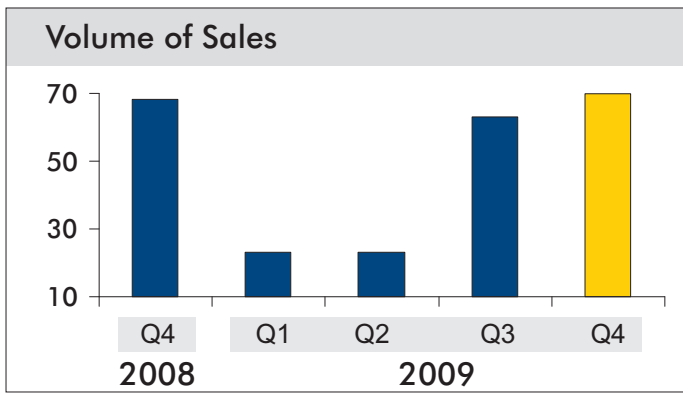
The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets,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

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

Economic activity in the manufacturing sector expanded in September for the second consecutive month, and the overall economy grew for the fifth consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today (1-Oct-2009) 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 second consecutive month in September. While the rate of growth moderated slightly when compared to August, the recovery broadened as the number of industries reporting growth increased from 11 to 13. Both new orders and production are growing, but at a slower rate when compared to August..."

The recovery in manufacturing continues as the PMI registered 52.6 percent in September, which is 0.3 percentage point lower than the 52.9 percent reported in August, and the second month of expansion following 18 months of decline. ISM's New Orders Index registered 60.8 percent in September, 4.1 percentage points lower than the 64.9 percent registered in August. ISM's Production Index registered 55.7 percent in September, which is a decrease of 6.2 percentage points from the August reading of 61.9 percent. Manufacturers' inventories contracted at a slower rate in September as the Inventories Index registered 42.5 percent. The ISM Prices Index registered 63.5 percent in September, 1.5 percentage points lower than the 65 percent reported in August. ISM's Employment Index registered 46.2 percent in September, which is 0.2 percentage point lower than the 46.4 percent reported in August. This is the 14th consecutive month of decline in employment.

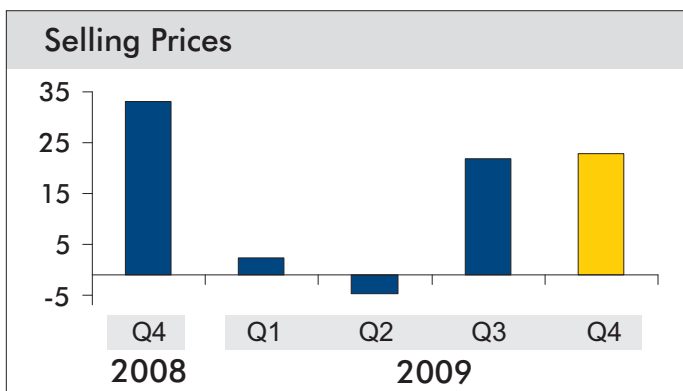
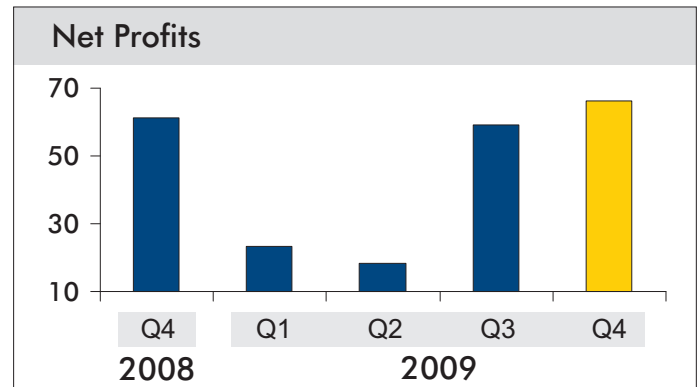


Volume of Sales

Demand conditions are expected to improve further during Q4 2009, with as many as 82% of the respondents anticipating an increase in sales volume. While about 13% of the respondents expect their volume of sales to remain unchanged, only 5% of the respondents anticipate a decrease in sales during Q4 2009. The resultant Optimism for Volume of Sales stands at 77%, an increase of 14 percentage points as compared to the previous quarter. While demand is expected to improve across all the sectors, the consumer non-durables sector in particular was more optimistic with around 86% of the respondents expecting an increase in volume of sales.

Net Profits

Profit expectations of the Indian corporates continued to improve, with as many as 73% of the respondents expecting an increase in their net profits during Q4 2009. While about 7% of the respondents are anticipating a fall in their net profits, as many as 20% of the respondents expect no change in net profits during Q4 2009. The resultant Optimism for Net Profits stands at 66%, an increase of around 7 percentage points as compared to the previous quarter. Amongst the sectors, intermediate goods and basic goods sector were relatively more optimistic about net profits in the forthcoming quarter.

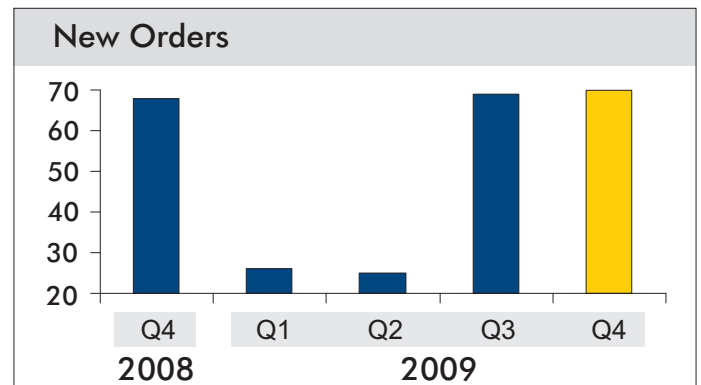


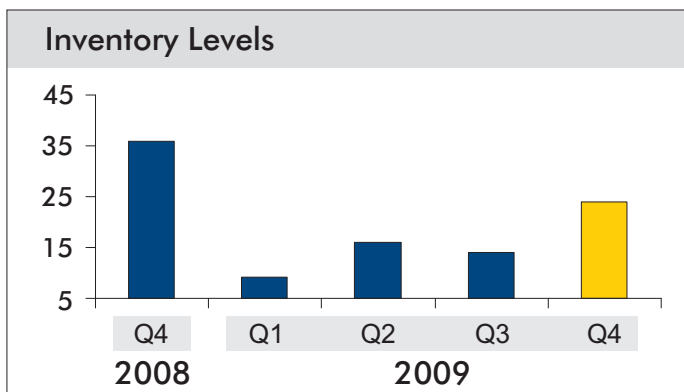
Selling Prices

While about 33% of the respondents expect selling prices of their products to increase, about 10% expect to witness a decline in their selling prices during the Oct-Dec 09 quarter. However, a majority of respondents from almost all sectors anticipate no significant change in the prevailing prices. About 57% of the respondents do not expect to witness any change in selling price. The resultant Optimism for Selling Prices stands at 23%, a marginal improvement over 22% in Q3 2009. The consumer durables and intermediate sectors were comparatively more optimistic about this parameter.

New Orders

Demand conditions are expected to improve in the medium to long term, with as many as 82% of the respondents anticipating their order book position to improve. While around 5% of the respondents expect a decrease in the number of new orders, about 13% expect no change in their order book position during Q4 2009. The resultant Optimism for New Orders stands at 77%, an increase of around 8 percentage points as compared to Q3 2009. While almost all the sectors were optimistic about this parameter, the consumer durables and consumer non-durable sectors were relatively more optimistic.



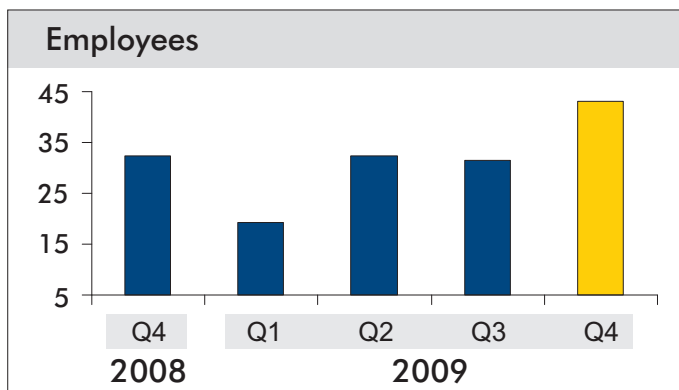


Inventory Levels

While around 35% of the respondents expect to witness an increase in their inventory levels, around 11% expect their level of stock to decline in the Oct-Dec 09 quarter. As many as 54% of the respondents anticipate no significant change from the current situation. The resultant Optimism for Inventory Levels stands at approximately 24%, reflecting an increase of about 10 percentage points from the previous quarter. Among the sectors, the respondents from the consumer durables, consumer non-durables, and capital goods sector were relatively more optimistic, with respect to this parameter.

Employees

The employment scenario is expected to improve with as many as 48% of the respondents expecting an increase in number of employees during Q4 2009 as compared to 38% in Q3 2009. While 47% of the respondents intend to keep the number of employees unchanged, 5% expect a decline in number of employees during Q4 2009. The resultant Optimism for Employees stands at 43% for the Oct-Dec 09 quarter, an increase of around 10 percentage points as compared with the previous quarter. Among the sectors, the consumer non-durables sector showed a greater inclination towards increasing the number of employees.



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