



Decide with Confidence

# Dun & Bradstreet Business Optimism Index

India | Q3 2009

July 2009

## D&B Business Expectations Survey

### *Outlook for Q3 2009 - Key Highlights*

- Composite Business Optimism Index increases by 40.8% (q-o-q)
- Demand conditions expected to improve
- Optimism Index for Net Profits registers an increase of 41percentage points (q-o-q)
- Five out of 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 Q3 2009

D&B Business Optimism Index survey for Q3 2009 was conducted in June - at a time when post-election optimism in the domestic economy received further support from a confluence of factors such as positive growth numbers in certain key sectors like infrastructure, resilient GDP figures, resumption in capital inflows and largely positive sentiments in the domestic stock markets. India's GDP grew by 5.8% during Q4 FY09, taking the growth for FY09 to 6.7%. This points towards the resilience displayed by the Indian economy, at a time when the major developed economies are mired in a recession. The services sector has been the key growth catalyst during the second half of FY09, primarily driven by the `Community, social and personal services` sub-sector- reflecting disbursement of Pay Commission awards and general step up in Government expenditure to boost demand. The industrial sector, however, posted a dismal performance during Q4 FY09, primarily on account of contraction in manufacturing activity (-1.4%). This has placed downward pressure on GDP growth.

The sharp contraction in economic activity and decline in business confidence – witnessed during the past few months – seems to be abating now. IIP growth turned positive during Apr 09 (1.4%), after witnessing a decline for two consecutive months. Increase in intermediate goods production for the second consecutive month in Apr-09 (after witnessing sustained decline since Aug-08) point towards expectations of increase in domestic demand. In fact, domestic demand conditions have begun to stabilise, as is evident from a 16.9% increase in consumer durables production in Apr-09. Also, the six core infrastructure industries grew by 3.9% during Apr-May FY10 as compared to 2.7% during the corresponding period of the previous fiscal, providing some glimmer of hope. However, the exports sector continues to be impacted by weak demand conditions in advanced economies. India's exports declined for the seventh consecutive month, by 33.2% (y-o-y, US\$ terms) during Apr-09. Exports are likely to remain grim in the short term and this could have a bearing on domestic economic activity going forward.

Resumption in foreign fund inflows coupled with positive sentiments in the domestic stock markets and the increase in Qualified Institutional Placements (QIPs) point towards gradual easing of funding pressures for the corporates and augurs well for the future growth prospects of the economy. However, bank credit off take has moderated significantly during the past few months. Softening PLR and stability entering the economy might provide some boost to the moderating bank credit demand going forward. On inflation front, headline inflation slipped into the negative zone during the first week of June 09. However, this is mainly due to the high statistical base and does not reflect actual contraction in the price level. As the effects of fiscal stimulus measures and monetary easing have begun to unfold, demand condition in the economy is stabilising and is likely to witness a sustained revival going forward.

Reflecting the prevailing business sentiment, Composite Business Optimism Index for Q3 2009 recorded an increase of as much as 40.8% (q-o-q). The Composite Business Optimism Index for Q3 2009 inched up to 132.1 after touching an all-time low of 93.8 in Q2 2009. Although the BOI has witnessed a significant increase compared to the previous quarter, the index remains below its last year's level. On a y-o-y basis, the BOI for Q3 2009 recorded a marginal decrease of 3.3%. Based on the responses received, it was observed that five out of the six optimism indices – namely, volume of sales, net profits, selling prices, new orders, and employee levels have registered an increase as compared to the previous quarter. Only one out of the six optimism indices – inventory levels – declined by 2 percentage points as compared to the previous quarter. While optimism has been spread across all the sectors, the basic goods sector in particular was the most optimistic. Increase in infrastructure spending during the last few months is likely to have provided the much needed impetus to the basic goods and capital goods sectors.

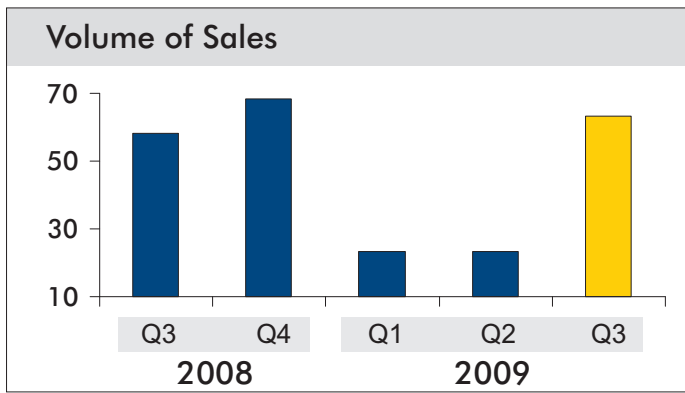
Q3 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

*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 May Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector failed to grow in May for the 16th consecutive month, while the overall economy grew for the first time following seven months of decline, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued on June 1, 2009 by Norbert J. Ore, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "While employment and inventories continue to decline at a rapid rate and the sector continued to contract during the month, there are signs of improvement. May is the first month of growth in the New Orders Index since November 2007, with nine of 18 industries reporting growth. New orders are considered a leading indicator, and the index has risen rapidly after bottoming at 23.1 percent in December 2008. Also, the Customers' Inventories Index remained below 50 percent for the second consecutive month..."

Manufacturing contracted in May as the PMI registered 42.8 percent, which is 2.7 percentage points higher than the 40.1 percent reported in April. ISM's New Orders Index registered 51.1 percent in May, 3.9 percentage points higher than the 47.2 percent registered in April. ISM's Production Index registered 46 percent in May, which is an increase of 5.6 percentage points from April's reading of 40.4 percent. Manufacturers' inventories contracted in May as the Inventories Index registered 32.9 percent, which is 0.7 percentage point lower than April's reading of 33.6 percent. The ISM Prices Index registered 43.5 percent in May, 11.5 percentage points higher than the 32 percent reported in April. ISM's Employment Index registered 34.3 percent in May, which is 0.1 percentage point lower than the 34.4 percent reported in April.

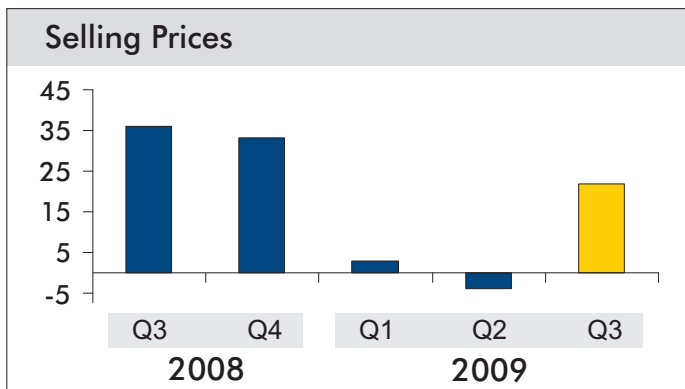
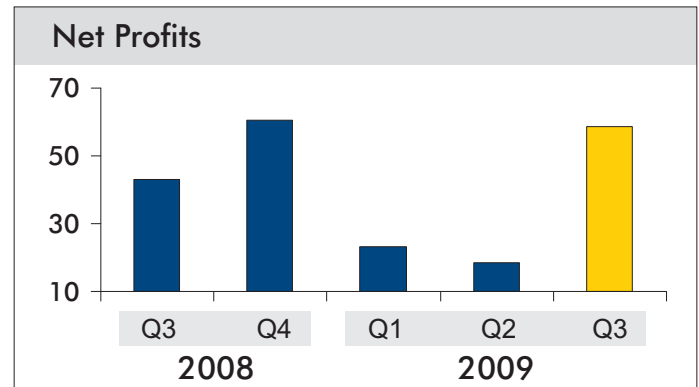


### Volume of Sales

Demand conditions are expected to witness some improvement during Q3 2009, with as many as 72% of the respondents anticipating an increase in sales volume. While about 19% of the respondents expect volume of sales to remain unchanged, around 9% of the respondents anticipate a decrease in sales during Q3 2009. The resultant Optimism for Volume of Sales stands at 63%, an increase of 40 percentage points as compared to the previous quarter. While demand is expected to improve across all the sectors, the Basic goods sector in particular was more optimistic with around 80% of the respondents expecting an increase in volume of sales.

### Net Profits

Profit expectations of the Indian corporates improved substantially, with as many as 69% of the respondents expecting an increase in their net profits during Q3 2009. While about 10% of the respondents are anticipating a fall in their net profits in Q3 2009, about 21% of the respondents expect no change in net profits during the Q3 2009. The resultant Optimism for Net Profits stands at 59%, an increase of as much as 41 percentage points as compared to the previous quarter. Amongst the sectors, basic goods and consumer non-durable sector were the most optimistic, while the intermediate goods sector was relatively less optimistic about net profits.

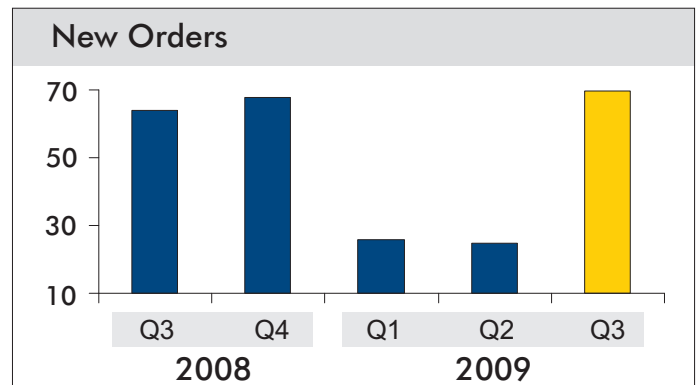


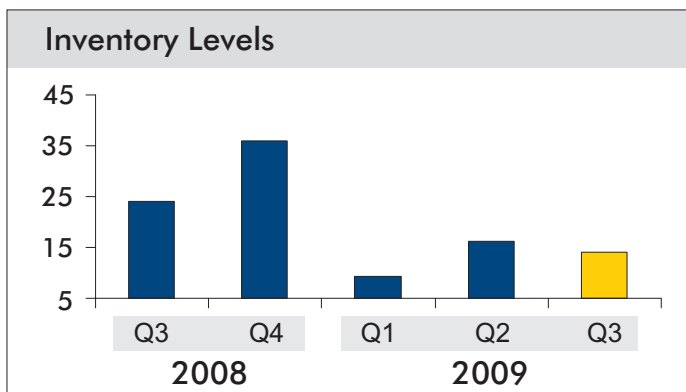
### Selling Prices

While about 35% of the respondents expect selling prices of their products to increase, about 13% expect to witness a decline in their selling prices during the Jul-Sep 09 quarter. However, a majority of respondents from almost all sectors anticipate no significant change in the prevailing prices. About 52% of the respondents do not expect to witness any change in selling price. The resultant Optimism for Selling Prices stands at 22%, as compared to -4% in the previous quarter. The consumer durables sector was the most optimistic about this parameter with about 43% of the respondents from this segment expecting an increase in prices.

### New Orders

Approximately 76% of the respondents expect their order book position to improve and 7% anticipate a decrease in the number of new orders during Q3 2009. The resultant Optimism for New Orders stands at 69%, a substantial improvement compared to 25% in the previous quarter. While almost all the sectors were optimistic about this parameter, the basic goods and consumer non-durable sectors were more optimistic with more than 80% of the respondents expecting an increase in new orders placed during Q3 2009. This may be an indication of expectations of better demand conditions in the long run.



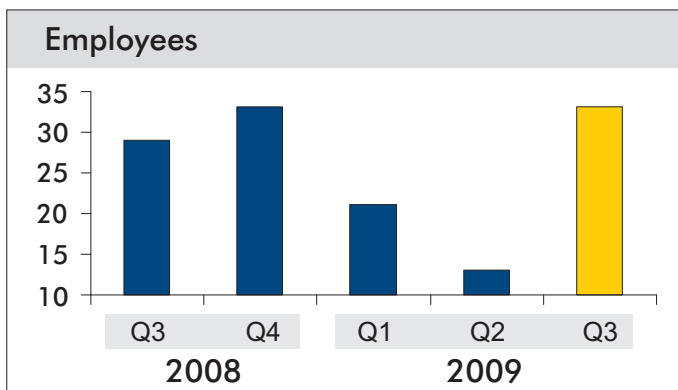


### Inventory Levels

While around 33% of the respondents expect to witness an increase in their inventory levels, around 19% expect their level of stock to decline in the Jul-Sep 09 quarter. As much as 48% of the respondents anticipate no significant change from the current situation. The resultant Optimism for Inventory Levels stands at approximately 14%, reflecting a marginal decrease of about 2 percentage points from the previous quarter. Among the sectors, the respondents from the capital goods sector were relatively more optimistic, with respect to this parameter.

### Employees

The majority of respondents anticipate no change in the size of the workforce employed during Q3 2009. Approximately 57% of the respondents intend to keep the number of employees unchanged. While 38% of the respondents expect an increase in the number of employees, 5% expect a decline. The resultant Optimism for Employees stands at 33% for the Jul-Sep 09 quarter, an increase of around 20 percentage points as compared with the previous quarter. Among the sectors, the services sector showed a greater inclination towards increasing the number of employees.



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