



Decide with Confidence

Dun & Bradstreet

# Economy Outlook 2010-11

The economic journey in 2009-10 and the year ahead

Preface

The Economic Journey: 2009-10

India's Economic Outlook: 2010-11

Sectoral Outlook 2010-11

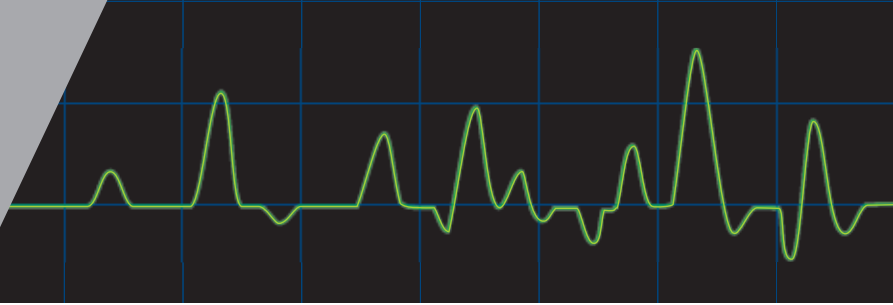
Economic Growth Drivers

Appendix



Decide with Confidence

# Economy Outlook 2010-11



## Preface

A year after what many define as global economy's worst crisis of confidence, there seems to be growing evidence that the various strategies put in place to tide over the economic crisis are paying off. The first signs of positive growth are in evidence in many advanced economies. Global production and trade have bounced back while financial markets have recovered faster than expected.

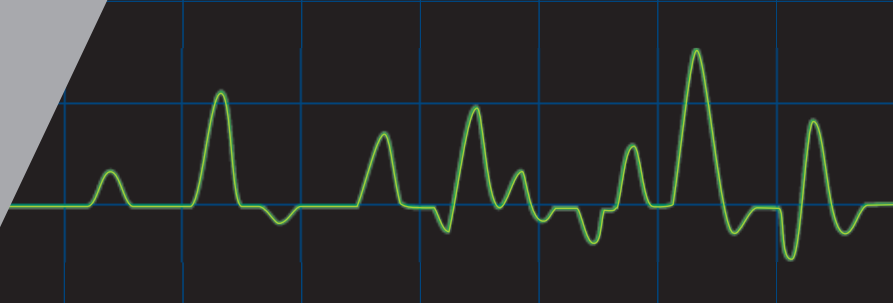
There has been a discernable improvement in economic and financial conditions in India. Industrial production is rebounding, consumers who held back on spending out of fear of job loss have begun to spend more freely as they see job creation begin to take hold. Improvement in global demand is generating a robust rebound in exports while the financial markets are in better shape as evidenced by the continued rally in equities. The collective impact of monetary and fiscal policies, as well as targeted structural measures has been crucial in containing the effects of the global economic downturn on domestic economic activity.

The business landscape has changed significantly in the past one year. The difficult economic scenario compelled companies to re-look at the manner in which they conducted their businesses. Companies that demonstrated cost leadership without losing sight of the needs of the customers have emerged as true leaders in an economy that has turned extremely price sensitive. New business models have emerged, as companies took the path of innovation to stay tuned to customer needs and remain competitive. The crisis has reinforced the importance of good risk management practices. With companies carrying over the lessons of the past year into 2010, the expectation is that it will be a more mature India Inc that will emerge from the existing scenario.

D&B believes that India's economic growth prospects would improve significantly in FY11 as private consumption and investment takes hold. There would however be many pitfalls along this road to recovery. The major policy challenge would come from the sharp rise in inflation and bringing about quality of fiscal adjustment under the mode of fiscal consolidation. There are also looming concerns over a second round of convulsion in the advanced economies. If this is to happen, the recovery process is bound to be impacted.

It has become imperative for businesses to track the economic environment on an ongoing basis when changes come in such a dynamic fashion; when perceptions on where macroeconomic risks lie are so numerous and changing so often; when the immediate business environment becomes so closely linked with events that are largely beyond our immediate control.

This report has been prepared with the idea of providing a forecast of key macroeconomic variables, which will determine the course of the business environment over the next fiscal. The report summarizes the results of the Sectoral Outlook Survey 2010-11 that has been designed by D&B to gauge the level of optimism in the different sectors of the economy. The report also identifies certain parameters that will drive the growth of the economy over the next five years. This not only provides a roadmap for how we have reached where we are, but also provides significant clues for what needs to be done for us to sustain the high growth trajectory.



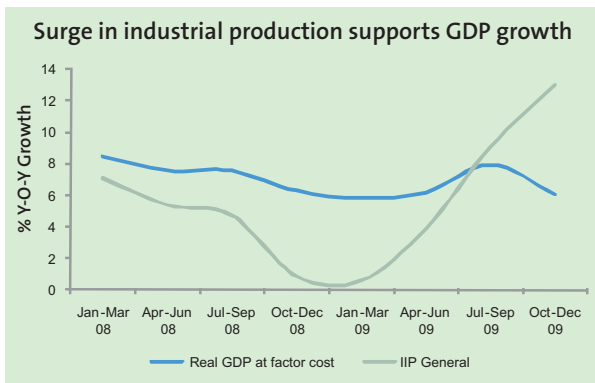
## The Economic Journey: 2009-10

In 2008, the Indian as well as global economy witnessed a substantial deceleration in growth consequent to the global financial & economic turmoil. Towards the end of 2008, corporate profits deteriorated, consumption & investment demand shrank, and there was a dearth of employment opportunities. The manufacturing sector's slowdown was even more pronounced with growth in the manufacturing output turning negative in Dec-08.

Though the growth momentum of the Indian economy was substantially impacted with the onset of the global economic slowdown, the severity of the impact was considerably less when compared to most developed economies. The fiscal & monetary stimulus announced in the latter part of 2008 helped the economy to recover from the slowdown phase. The outlook for the Indian economy turned positive towards the end of 2009, given a sustained growth in the industrial production and the recuperating consumption & investment demand. Further, with improving business sentiment, the D&B's Composite Business Optimism Index for Jan-Mar 10 witnessed an increase of as much as 43.4% as compared to the corresponding period of previous fiscal.

### The Indian Economy sets on the Recovery Path

After witnessing deceleration in GDP growth for five consecutive quarters, a notable turnaround in India's real GDP growth took place during Apr-Jun 09 quarter, with the GDP registering growth of 6.1% (y-o-y) as against 5.8% during the previous quarter. The rise in GDP growth, which was viewed as an incipient sign of recovery in the economy, was primarily due to the lagged impact of increase in government spending and the improved performance of industrial sector.



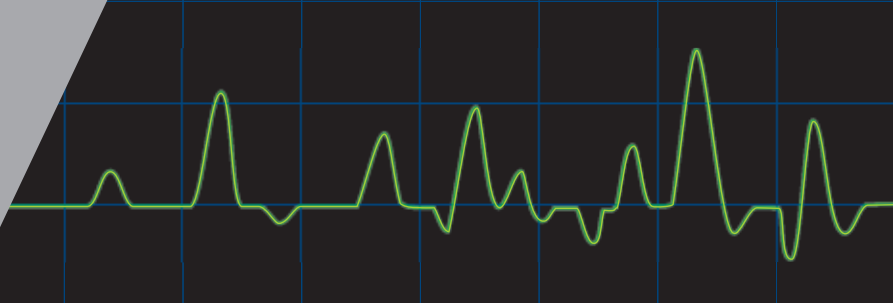
Source: Central Statistical Organisation (CSO)

The domestic industrial activity witnessed a sustained improvement during Apr-Dec 09, as is evident from the strong IIP growth figures. While this can partly be attributed to the low base effect, restocking by manufacturers following the earlier cutbacks in factory output & drawdown of inventories also aided the industrial production in the latter half of 2009. The other positive aspect of this rebound in the industrial activity was that it was broad based. As many as 14 out of 17 major manufacturing sectors witnessed a positive growth during Jan-Dec 09, thereby strengthening the prospects of faster recovery in the domestic industrial activity.

The fiscal & monetary stimulus measures announced earlier played a major role in stimulating consumption & investment demand in the economy during 2009. The government final consumption expenditure continued to remain high during the first nine months of 2009, providing support to the domestic consumption and in turn to the GDP growth. This is further evident from the fact that barring government final consumption expenditure, growth in GDP at constant market prices would fall to 4.8% during Jan-Sep 09 from the actual 5.6% during the same period. Growth in government final consumption expenditure, however, witnessed substantial decline during Oct-Dec 09, indicating a gradual reduction in government spending given the high fiscal deficit. Now that the economy is firmly on the recovery path, the question that arises is; will the current pace of revival continue in case there is further reduction in the government consumption expenditure?

The increased infrastructure spending by the Government coupled with the commencement of capacity expansion plans that were deferred in 2008 due to liquidity crunch & economic slowdown led to resumption in domestic investment activity. The improvement in the domestic investment activity was reflected in the sustained improvement in the growth of gross fixed capital formation during Jan-Dec 09.

Despite the strong performance of the industrial sector, a lower agriculture sector output due to the deficient monsoon led to some moderation in the real GDP growth during Jan-Dec 09. The deficient monsoon as well as floods in some parts of the country had adversely impacted the kharif output. Growth in the services sector also remained low during Jan-Dec 09 as compared to the same in the corresponding period of the previous year, indicating the



lagged impact of the slowdown in the economic activity in 2008 on the services sector.

### Food Article Prices Remain Elevated

The lower agricultural output not only weighed on the overall growth prospects but also fuelled inflationary pressures in the economy. The price scenario in India remained extremely volatile during CY09, with the headline inflation (as measured by the Wholesale Price Index), moderating significantly during the first seven months of 2009 and spiraling upwards thereafter.

The WPI marched southwards during Jan-May 09 and touched a low of 1.4% (y-o-y) during May-09 on account of declining international prices of crude oil, metals and food articles. The domestic prices of primary food articles, particularly food grains, however, remained elevated during this period.

The headline inflation slipped into the negative zone in Jun 09 - for the first time in more than 30 years - primarily due to the high statistical base. Although, the WPI inflation had turned negative, there was no respite for the common man as prices of food items like fruits & vegetables, food grains and sugar were higher than last year consequent to supply side constraints. As a result, while the WPI inflation turned negative, the consumer price inflation for industrial workers remained elevated at 9.3% during Jun-09. Given that surging food articles prices could have deeper socio-economic implications, the Government initiated a slew of measures to tackle the supply side constraints. However, these measures had a limited impact due to inadequate public distribution network.

After remaining in the negative territory for almost three months (Jun-Aug 09) the WPI inflation turned positive during Sep-09 (0.5%, y-o-y). Given the surging food articles prices, expected lower kharif output during 2009-10, excess liquidity in the system and the waning base effect, the WPI inflation started to rear its head again since

Sep-09. The headline inflation surged to 9.9% during Feb-10 - far above the RBI's tolerance level - owing to high prices of primary food articles and rise in the fuel group & manufactured products inflation.

### The RBI Tightens its Monetary Stance Owing to Inflationary Concerns

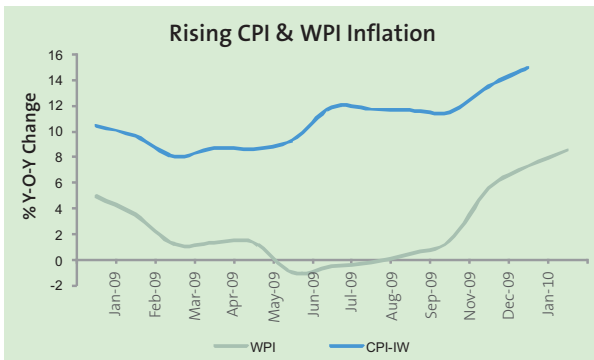
Although there was return of financial stability in the economy, some downside risks to growth continued to persist, leading the RBI to maintain the accommodative monetary policy stance during Jan-Sep 09. The RBI announced a 175 bps cut each in Repo & Reverse repo rates, while CRR was reduced by 50 bps in a span of first four months of 2009. Despite the policy interest rates declining to a very low level, the SCB's BPLR had not witnessed commensurate reduction, thereby constraining the RBI's efforts to lower lending rates. The CRR cut announced in Jan-09 and in the second half of 2008 led to significant improvement in the domestic liquidity conditions during 2009, as indicated by lower call money rates & increased SCB's recourse to reverse repo window.

Given the comfortable liquidity conditions in the economy, the short-term yields largely remained low during Jan-Dec 09. However, the medium to long term yields remained elevated during most part of the year on account of the huge government borrowing programme. This coupled with the rising inflationary expectations led to steepening of the yield curve during the first half of 2009.

The mounting inflationary pressures and the excess liquidity conditions in the economy led the RBI to reverse its stance of accommodative monetary policy to monetary tightening in Oct-09 (Q2 FY10 review of monetary policy). The RBI did withdraw some unconventional liquidity augmentation measures announced as part of its monetary stimulus measures in 2008, thereby signaling towards the exit of expansionary monetary policy. With the headline inflation crossing the RBI's tolerance level towards the end of 2009, the RBI tightened its monetary stance further in order to drain excess liquidity from the system. However, the efficacy of monetary measures in curbing inflation is expected to be limited as the recent surge in inflation is predominantly due to supply side constraints. Nonetheless, monetary tightening could help in containing inflationary expectations in the economy.

### Growth in Bank Credit Remains Low

Given the high level of risk aversion amongst banks and low demand for bank credit by private sector, growth in



Source: Ministry of Commerce, CSO



Decide with Confidence

# Economy Outlook 2010-11



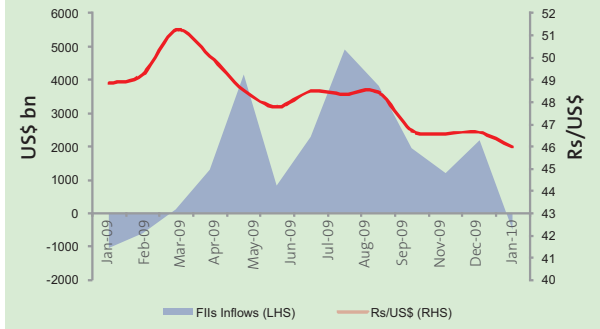
non-food credit witnessed substantial moderation during Jan-Sep 09. Growth in credit offtake almost halved to 12.6% as on 25-Sep-09 from the year-ago period. Growth in bank credit, however, witnessed some improvement during Oct-Jan 10 on the back of gradual revival in demand for bank credit across sectors as well as reduction in risk aversion on part of banks. Bank credit registered a growth of 15.8% as on 26-Feb-10 lower than the growth of 18.3% during the year-ago period. This can partly be attributed to the availability of credit from non-bank avenues such as own capital of corporates, capital markets, NBFCs and foreign capital investment.

## Exports Growth Turns Positive After a Gap of 13 Months

The deepening of recession in developed economies had an adverse impact on India's merchandise trade during CY09. India's merchandise exports witnessed a sharp decline during Jan-Oct 09 as global demand for India's exports waned owing to the financial & economic crisis. India's merchandise imports also registered a substantial decline during Jan-Nov 09 owing to subdued domestic demand. While both exports and imports continued to decline on y-o-y basis during Jul-Oct 09, when taken on a q-o-q basis, the pace of the decline was significantly less. A recovery in global manufacturing activity, improving financial market conditions and resurgence in risk appetite in most global economies put a cap on the decline in exports, while a sustained improvement in domestic demand restricted the decline in imports.

After witnessing a decline for almost 13 months in a row, exports registered a positive growth of 18.2% during Oct-09. Although this can partly be attributed to the low base effect, stabilising external demand conditions also aided the exports growth. Imports also clocked a positive growth of 27.0% during Dec-09, after a span of 11 months, primarily due to high oil import bill and improving

## Resumption in FII inflows led to appreciation of the rupee

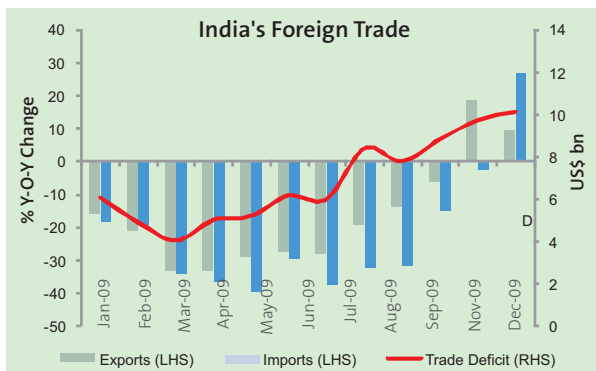


Source: RBI, SEBI

domestic demand conditions. With the pace of deceleration in imports being higher than that in exports, the trade deficit for Jan-Dec 09 narrowed to US\$ 81.5 bn from US\$ 122.3 bn during Jan-Dec 08.

The narrowing of the merchandise trade deficit that offset the y-o-y decline in net invisible receipts during Jan-Sep 09, led to the moderation in the current account deficit to US\$ 13.9 bn during Jan-Sep 09 as against US\$ 23.1 bn during Jan-Sep 08. A moderation in net invisibles surplus was primarily due to a decline in services exports, particularly non-software services. Further, with stabilising global financial markets and the return of risk appetite amongst global investors, there was resumption in net foreign portfolio inflows in terms of FIIs and ADR/GDR during Jan-Sep 09.

In the forex market, the rupee depreciated significantly vis-à-vis US Dollar during first three months of 2009 owing to a rise in oil importer-led dollar demand, huge FII outflows, a bearish trend witnessed in the domestic stock markets and strengthening of the US Dollar against major global currencies. There was a reversal in the downward trend of the rupee during Apr 09-Feb 10 on the back of rise in foreign capital inflows & NRI deposits and weakening of the US Dollar in the international markets. Given the appreciation in the rupee, if the RBI intervenes to rein in the rupee value, it might add to inflationary pressures given the fact that sterilisation leads to liquidity infusion. Thus, in view of the aforementioned factors, the policy responses of the RBI are required to be adjusted in tandem with the changing economic environment.



Source: Ministry of Commerce



Decide with Confidence

A line graph with a green line on a dark grid background, showing several peaks and troughs, representing economic data. The line starts at a baseline, rises to a small peak, then a larger one, followed by a dip and another significant peak, and continues with smaller fluctuations.

# India's Economic Outlook: 2010-11



## Outlook for the Indian Economy 2010-11

By the end of FY09, the Indian economy was reeling under pressures emanated from the global economic crisis and the prospects for economic growth in FY10 were expected to remain muted. At D&B, we expected GDP growth to remain muted at 6.7% during FY10. However, we believed that the economy would begin to revive by H2 FY10 supported by a revival in consumption demand. Nonetheless, a gradual turnaround was visible from the second quarter itself backed by timely and aggressive policy responses by the Government and the RBI to tackle the crisis. Although the economy had taken a step toward recovery path supported by government spending in Q2 FY10, improvement in consumer as well as business sentiment was visible in the second half as expected.

While the economy had began to show signs of turnaround, it encountered a set back in the form of uneven monsoon, which was expected to put significant downside pressures on agriculture growth. D&B revised downwards its agriculture growth forecast for FY10 to -0.5% from earlier 2.9%. Prospects of better rabi output restrained us from revising it downwards significantly. Despite the downward revision in agriculture growth, we maintained the GDP forecast at 6.7% on account of a better than expected turnaround in industrial activity and increased spending by the Government. However, with the robust performance of industrial sector in the second half of FY10 we revised our GDP forecast for FY10 marginally upwards to 6.9% in Feb-10 from 6.7% in Feb-09.

D&B expects economic growth prospects to improve significantly in FY11 as the private sector demand - both consumption as well as investment - begins to pick up. However, the government consumption demand is expected to moderate on account of fiscal consolidation plan and expected gradual withdrawal of stimulus packages announced earlier. Nonetheless, the focus of government spending on infrastructure sector would continue to support growth. Assuming a normal monsoon, we expect GDP growth to surge to 8.3% during FY11. This growth would largely be driven by the following factors:

- Robust industrial growth backed by improvement in consumption demand
- Increase in infrastructure spending

- Substantial growth in investment activity
- Recuperating external demand conditions
- Stability and improvement in financial markets

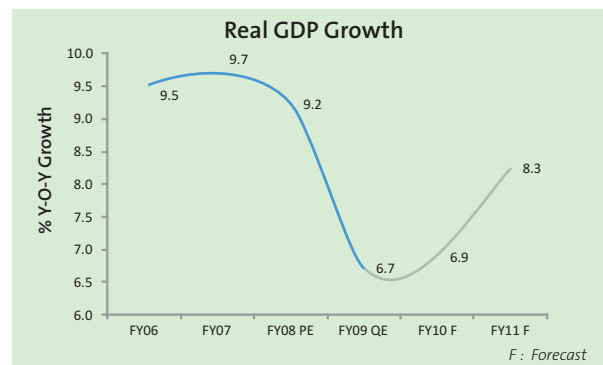
On the inflation front, D&B expects WPI inflation to touch double digit level in March 2010 and remain at this high level during the first quarter of FY11. However, it might witness some moderation subsequently. Interest rates are also expected to rise from the current levels primarily due to monetary tightening by the RBI in an attempt to rein in inflationary pressures.

On the fiscal front, D&B expects the growth in indirect tax revenue to fall short of the budgeted increase of 28.5% thereby resulting in higher than budgeted fiscal deficit.

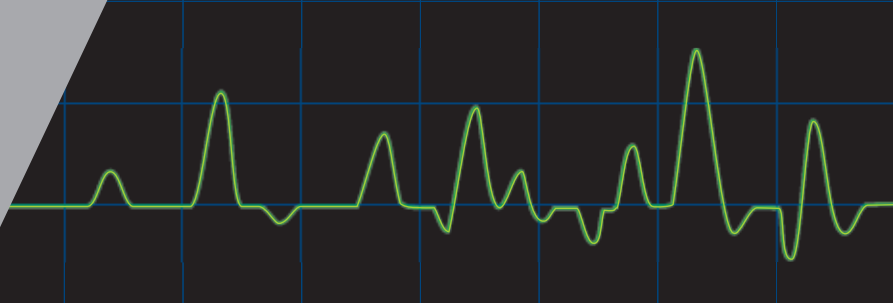
On the external front, D&B expects growth in imports to be faster than exports thereby leading to high trade deficit. Further, the rupee is forecasted to appreciate from the current levels backed by expected foreign fund inflows and improvement in growth prospect of the Indian economy.

### Real GDP to Grow by 8.3% in FY11

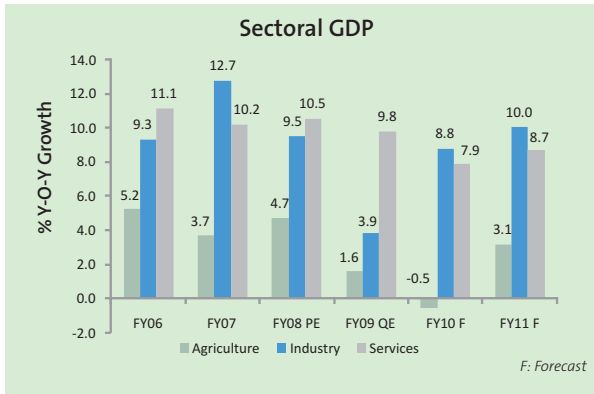
D&B believes that India's economic growth would pick-up pace gradually as the private consumption and investment demand gathers momentum and supports the economic activity even when the stimulus provided by the government is being withdrawn and RBI tightens its monetary policy. D&B expects GDP growth to be around 6.9% during FY10 and then surge to 8.3% in FY11. GDP growth is expected to increase to 8% during H1 FY11 and further to 8.5% in H2 FY11. The non-farm sector growth



Source: CSO and D&B India



is expected to be around 9.1% during FY11 as against 8.2% in FY10.

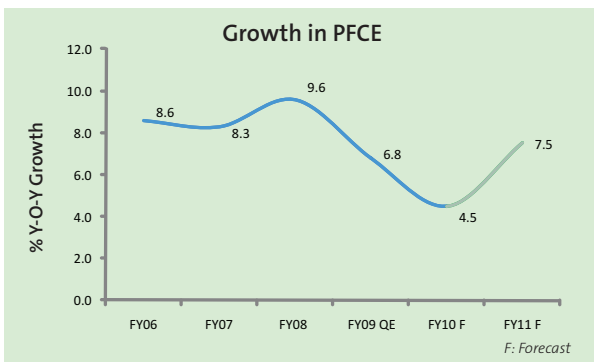


Source: CSO and D&B India

The rebound in GDP growth is expected to be driven by a double digit growth in the industrial component of GDP. D&B expects the industrial component of GDP to grow by around 10% during FY11 following an expected growth of 8.8% during FY10. The services sector growth is expected to have slowed down to 7.9% during FY10 as lagged effects of slowdown in the industrial sector on services intensified. D&B expects growth in services sector to increase to around 8.7% during FY11 following the revival in the industrial sector. Assuming a normal monsoon, the agriculture sector is expected to grow by around 3.1% during FY11 after an expected decline of 0.5% during FY10.

### Improved Private Consumption Demand to Support Growth as Government Rolls Back the Stimulus Completely

D&B expects the growth in private final consumption expenditure to have moderated to 4.5% during FY10 from around 6.8% in FY09. With the rapidly recuperating domestic demand conditions D&B expects the PFCE to



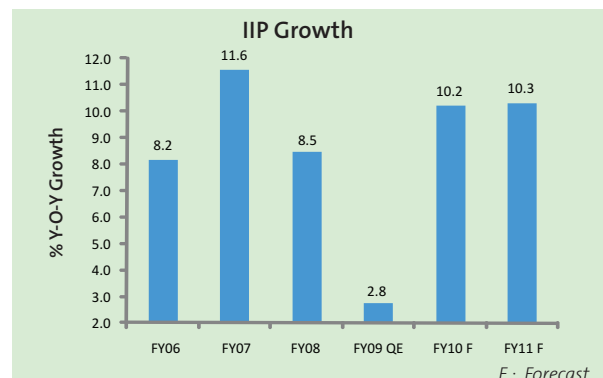
Source: CSO and D&B India

grow by around 7.5% during the FY11. The substantial improvement in private consumption demand is likely to be supported by

- Improving consumer sentiment
- Rapidly waning uncertainty on the employment front
- Expected increase in disposable income given the broadening of overall income tax slabs for individuals announced in the Union budget of FY11
- Resumption in consumption demand deferred due to slowdown in economic activity and uncertainty on employment front

### Industrial Production to Remain Robust

D&B expects Index of Industrial production to have surged by 10.2% during FY10 as compared to 2.8% in FY09. The increase in industrial production has been supported by improving domestic demand conditions and resumption in investment demand. The surge in production during the latter part of FY10 could also in part be attributed to restocking by the companies in an attempt to restore the inventory levels which were cutback earlier in the wake of dwindling demand conditions. The IIP growth is expected to remain robust at 10.3% during FY11 on account of:



Source: CSO and D&B India

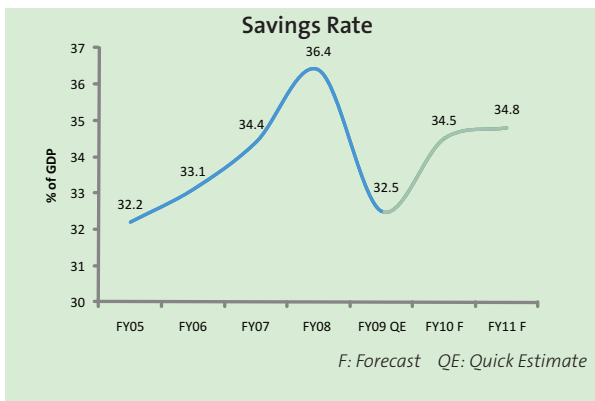
- Substantial improvement in domestic demand
- Recovery in demand for Indian exports
- Increase in investment activity
- Increased thrust of the government on infrastructure projects

D&B expects the growth in industrial production to be broad based during FY11. The expected strong investment demand, especially during H1 FY11 is likely to drive the growth in production of capital goods. Moreover,

improving consumer sentiment coupled with increased personal disposable income is likely to augment the demand for high-end consumer products thereby supporting the high growth in production of consumer durables going forward. The intermediate and basic goods production is expected to remain robust in FY11, given the substantial improvement in the industrial activity.

### Savings Rate Expected to Improve Marginally

D&B expects savings rate to increase to 34.5% during FY10 as compared to 32.5% during FY09 backed by growing consumer confidence, some improvement in corporate profitability, increase in foreign exchange reserves etc. Improvement in value of physical and financial assets



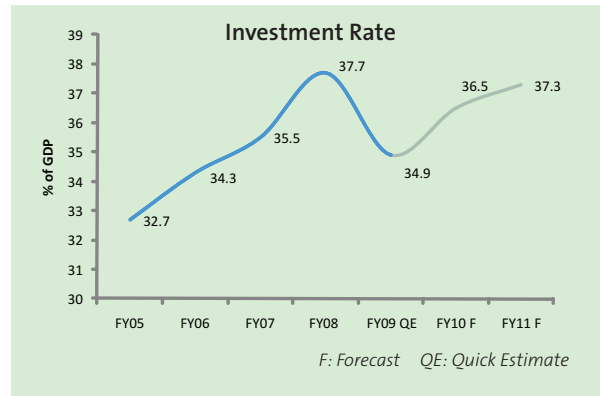
Source: CSO and D&B India

during FY10, which witnessed significant erosion during the crisis period, could in part be responsible for the uptick in the savings rate. Savings rate is expected to experience marginal improvement to 34.8% during FY11. Factors that would support the increase in saving:

- Expected increase in corporate profitability
- Lower fiscal deficit implying reduction in government dis-savings
- Expected increase in interest rates during FY11
- Increase in personal disposable income on account of changes in personal income tax slabs
- Increasing stability in job markets, which could lead to increased per capita income
- Improvement in consumer sentiment

### Investment Rate to Rebound

D&B expects investment rate to increase to 36.5% in FY10 and further to 37.3% in FY11 from 34.9% in FY09. Increase



Source: CSO and D&B India

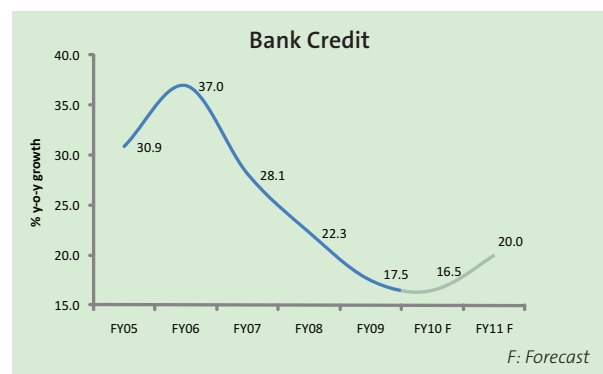
in investment rate is expected to be supported by the following factors:

- Resumption in capital expansion plans of the corporate as consumption demand and overall economic activity improves substantially
- Easing availability of fund from various sources, both internal and external, especially in the first half
- Increased focus of government on infrastructure development

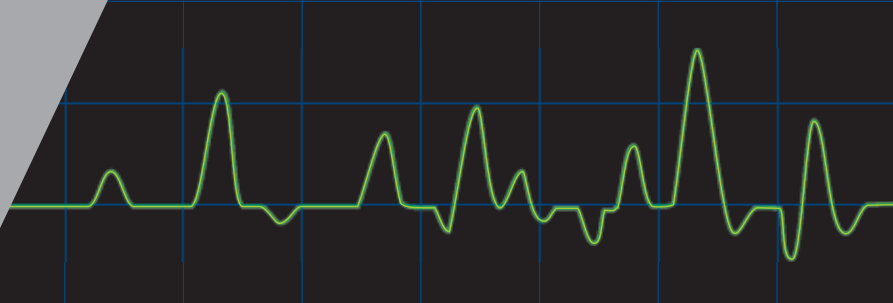
Expected increase in interest rates by the second half could lead to some moderation in investment demand.

### Bank Credit Growth to Improve During FY11 but Remain Below Pre-Crisis Levels

D&B expects the bank credit growth to moderate to around 16.5% by end of FY10 as compared to 17.5% by end of FY09. Significant moderation in demand coupled with increased risk aversion has contributed to decline in the growth rate of bank credit during last year. D&B forecasts growth in bank credit to improve to 20.0% by end



Source: RBI and D&B India



of FY11. D&B expects the momentum in the bank credit growth to improve marginally on account of:

- Increase in demand for bank credit by industry due to improvement in production and resumption in investment plans
- Improvement in consumption of high-end consumer product and resumption in demand for homeloans
- Waning risk aversion on the part of banks which had heightened on account of slowdown in economic activity

Growth in bank credit is expected to remain below the pre-crisis growth levels of 24-25% as an anticipated increase in interest rates is likely to moderate demand for bank credit, especially in the second half.

### Interest Rates Set to Harden

D&B expects Prime Lending Rate (PLR) to increase to around 12.50-13.50% by end of FY11 from an expected 11.00-12.00% by end FY10. PLR is likely to firm up during FY11 on account of increase in the policy interest rates. The lending rates are expected to surge as an after effect of anticipated monetary tightening by the RBI to rein in inflationary pressures. Further, monetary transmission mechanism is likely to improve as banks move to base rate methodology to calculate lending rates.

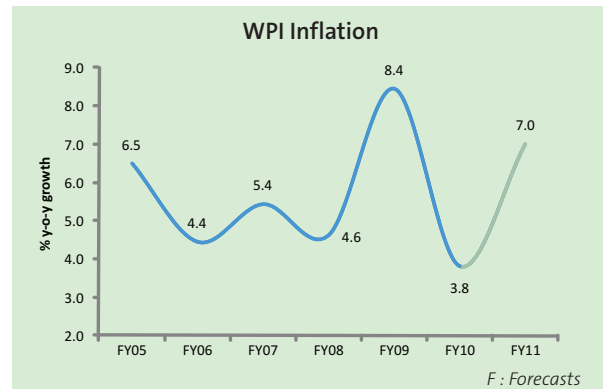
The 10-year G-sec yield is also expected to increase to 8.3% by end of FY11 as expected high inflation and further increase in policy rates by the RBI dampens sentiment in the G-sec market. Further, as credit demand begins to improve and CRR is hiked by the RBI, demand for G-sec by banks is expected to witness some moderation and thereby is expected to put upward pressure on the government bond yields. Reduction in fiscal deficit as compared to the previous fiscal is likely to provide some respite to the g-sec yields during FY11.

Interest Rate and Money Supply			
Variables (End Period)	FY09	FY10F	FY11F
PLR (%)	11.50-12.50	11.00-12.00	12.50-13.50
15-91 days' Treasury Bill (yield)	4.5	4.5	5.1
10 Year G-Sec (yield)	7.0	8.0	8.3
M3 (growth Rate %)	18.6	16.5	17.5

Source: RBI and D&B India

F: Forecasts

### Inflation to Remain Elevated During FY11



Source: Ministry of Commerce and D&B India

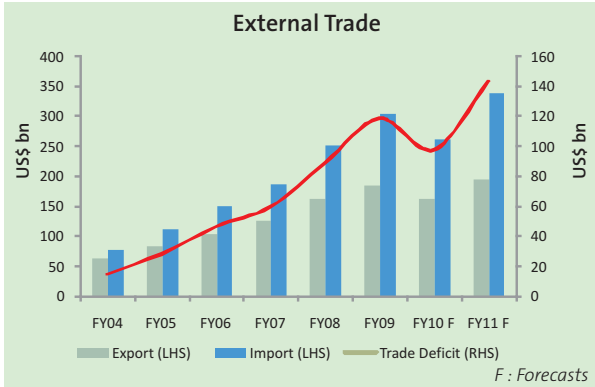
D&B expects WPI inflation to remain elevated and average at 7.0% for FY11 as compared to 3.8% during FY10. D&B expects WPI inflation to touch double digit level in March 2010. WPI Inflation is expected to remain elevated at a double digit level in the first quarter of the FY11 as factors such as augmenting consumption demand, increase in international commodity prices (especially crude oil), increase in input costs (which will induce increase of final product prices) and the low base effect comes into play. Assuming a normal monsoon, D&B however, expects WPI inflation to moderate in H2 FY11. Also the lagged impact of expected tightening of monetary policy would help to rein in the inflationary pressures during this period.

### Fiscal Deficit Expected to be Above Budgeted Levels

D&B expects the fiscal deficit for FY11 to be around 6%, higher compared to 5.5% budgeted by the Government. We believe that the growth in indirect tax revenue would fall short of the budgeted increase of 28.5%, thereby resulting in higher than budgeted fiscal deficit.

### Stress on External Balance Likely to Increase

D&B expects exports to be around US\$ 163 bn in FY10, which is approximately US\$ 22 bn lower than exports of US\$ 185.3 bn in FY09, owing to economic downturn witnessed in India's key export markets. D&B, however, expects exports to increase by around 19.9% during FY11 as the revival in exports, set in during the second half of FY10 is expected to gain momentum. Imports, on the other

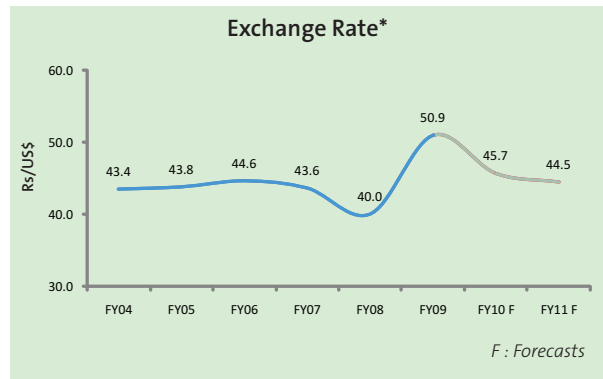


Source: Ministry of Commerce and D&B India

hand, are expected to be around US\$ 261 bn in FY10 and record a decline of around 14.2% compared to FY09. As consumption and investment demand improves, imports are expected to witness substantial improvement going forward. Imports are expected to grow by around 30% during FY11, on account of sustained improvement in economic activity as well as anticipated high commodity prices. D&B expects the trade deficit to increase to US\$ 143.2 bn in FY11, as growth in imports is expected to be greater than exports. Further the current account deficit would surge to 2.5% of the GDP in FY11, due to a high trade deficit.

## Rupee to Rally from the Current Levels

D&B forecasts the rupee value to be around 44.5/US\$ by the end of FY11. The appreciation in rupee in next fiscal would be on account of expected increase in FII inflows as India's economic activity improves substantially, in turn attracting foreign fund flows. An expected depreciation in dollar value is also likely to support rupee value going forward. Also, India-US interest rate differential is likely to increase slightly and might help the rupee to appreciate.



Source: RBI and D&B India

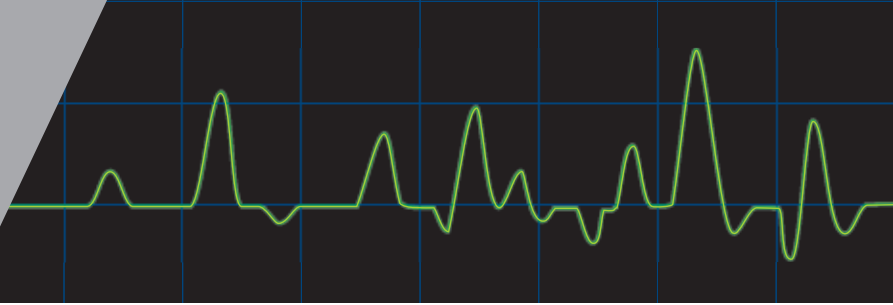
\*End Period



Decide with Confidence

A line graph with a green line plotted on a dark grid. The line shows several peaks and troughs, suggesting a fluctuating trend over time. The background of the graph area is dark, and the grid lines are light blue.

# Sectoral Outlook 2010-11



## Highlights of the Sectoral Outlook Survey 2010-11

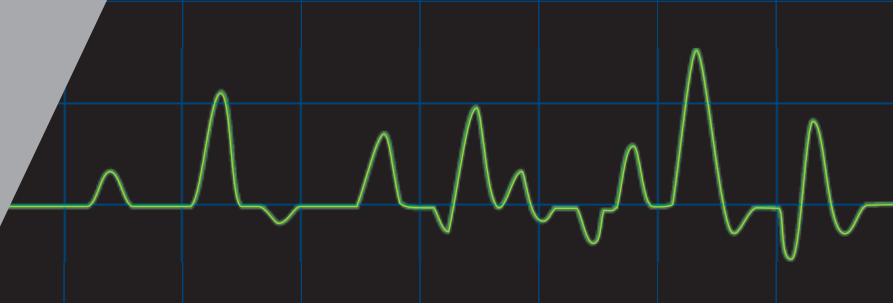
In a dynamic economic environment, gauging the optimism of the business community also provides an assessment of the overall growth prospects of an economy. D&B's Sectoral outlook report is a survey based analysis intended to provide insights into the sentiments prevalent amongst the corporate regarding their outlook of the business environment in FY11. This section also highlights the key issues and concerns that business leaders have regarding future business prospects. The report enunciates the growth drivers and strategic focus of various sectors as perceived by the companies. The report is intended to facilitate more informed decisions by the businesses and also enable investors to assess the degree of business confidence and potential for India's economic growth.

The survey results are highly optimistic with regards to demand conditions in FY11, with as many as 90% of the respondents from the manufacturing sectors expecting an increase in their sales volume as well as new orders received. Within the sectors automobile sector is highly optimistic with regards to volume of sales with as many as 96% of the respondents anticipating increase in their sales volume. Overall optimism regarding profit expectations remained healthy with 79% of the respondents from the manufacturing sector expecting an increase in their net profits during FY11. Amongst the sectors, cement sector is the most optimistic with 85% of the respondents anticipating their net profits to increase. The year 2010-11 is likely to bring cheer for job seekers as a large majority of the respondents from both manufacturing as well as services sector foresee an increase in headcount.

As many as 61% of the respondents from the manufacturing sector anticipate an increase in selling prices of their products. Amongst the manufacturing sectors, cement sector is highly optimistic about this parameter with as many as 64% of the respondents anticipating selling price of their products to increase and none of the respondents anticipating a decline. Capital goods and auto component sector are the least optimistic with regards to this parameter.

### Key Highlights

- **New product launches** will be the **key area of focus** for companies from the **automobile sector**
- **Input costs** will be the **biggest challenge** facing the **auto component sector**
- A large **majority of respondents** from the **capital goods sector** intend to **increase the number of employees** in FY11
- Capital spending not high on the agenda of majority of the respondents from the **cement sector** given that **excess capacity** is one of the **major challenges** for the respondents from the sector
- **Modernisation of the existing plants** considered as the **most important strategic focus** for the **steel sector**
- **Penetrating the domestic market** would be the **most important strategic focus** of the **textile sector**
- **Majority of the respondents** from **banking sector** expect their **Gross NPAs to remain above 3%** in FY11
- **Competitive environment** and **shortage of skilled resources** will be the **major challenges** to be faced by the **insurance industry** in FY11
- **Exchange rate volatility** foreseen as the **major challenge** in FY11 for the **IT-ITeS sector**
- **A large number of respondents** from the **real estate sector** consider **risk management** as their **key focus area** in the FY11
- Majority of the respondents from the retail sector anticipate average footfalls at the store(s) per day to increase during FY11. **Increase in the number of young working group population** to be the **major growth driver** in **retail sector** during the ensuing year



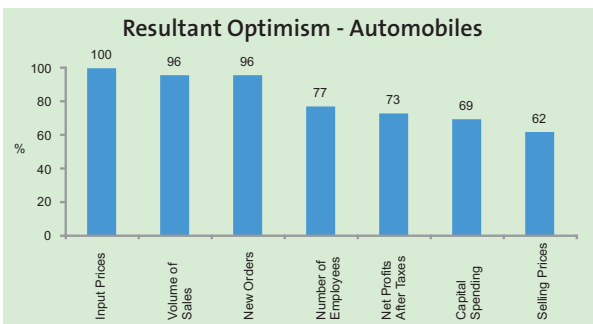
## Automobile

### Key Highlights

- Automobile industry anticipates input prices to rise in FY11
- Per capita income would drive demand for vehicles
- Market competition will pose biggest challenge for companies
- New product launches will be the key area of focus of companies

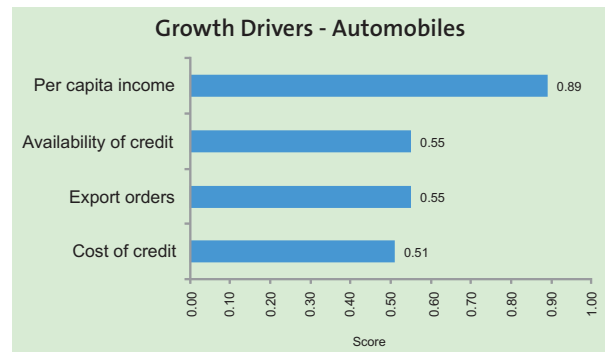
### Performance Indicators

- Automobile manufacturers are optimistic on the growth prospects of the industry for the forthcoming fiscal. A whopping 96% of the respondents expect sales volume to grow during FY11. Only a marginal 4% expect to see no change in volumes. The resultant Optimism for **Volume of Sales** stands at **96%**.
- On the back of higher sales, companies expect to earn higher profits, with as much as 85% of the respondents expecting to earn higher net profits in FY11. While 12% of the respondents anticipate a fall in net profits, a marginal 3% expect to witness no change in net profits. The resultant Optimism for **Net Profits** stands at **73%**.
- All the respondents anticipate input prices to witness an upward movement in FY11.
- Notwithstanding the stiff competition in the automobile market, a significant 69% of the respondents expect selling prices to increase. While about 7% of them expect selling prices to decline, a noteworthy 24% of the respondents anticipate selling prices to remain unchanged. The resultant Optimism for **Selling Prices** stands at **62%**.



- As much as 96% of the respondents expect increase in new orders during FY11, while the balance 4% anticipates no change in new orders. The resultant Optimism for **New Orders** stands at **96%**.
- Buoyed by the robust domestic demand and export prospects, auto companies are likely to step up capital expenditure, with close to 81% of the respondents expecting to witness an increase in capital spending in FY11. While 12% seem cautious and expect capital spending to decrease, the remaining 7% of the respondents expect to see no change in their capital expenditure next year. The resultant Optimism for **Capital Spending** stands at **69%**.
- Nearly 81% of the respondents expect expansion in their employee strength during FY11, while a small 4% of them anticipate decrease in employee strength. About 15% of them do not expect to see any change in employee strength. The resultant Optimism for **Employees** stands at **77%**.

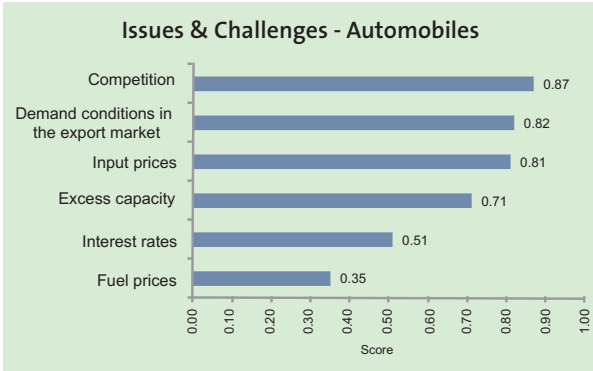
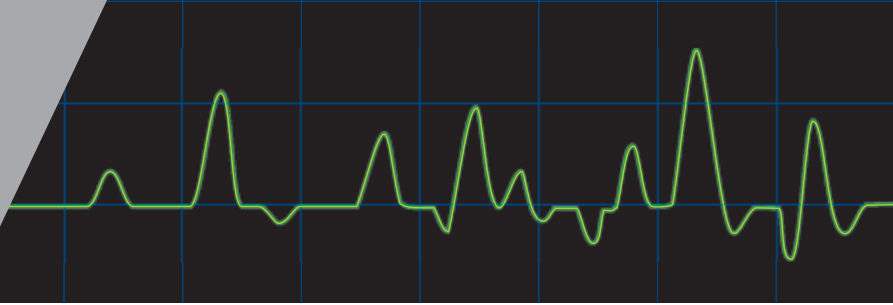
### Growth Drivers During FY11



Per capita income will be the single most important factor driving growth of automobile sales during FY11; 77% of the respondents feel that this will be a major growth driver in the coming year. With a score of 0.89, this factor has received the highest ranking among the key growth drivers.

### Issues & Challenges during FY11

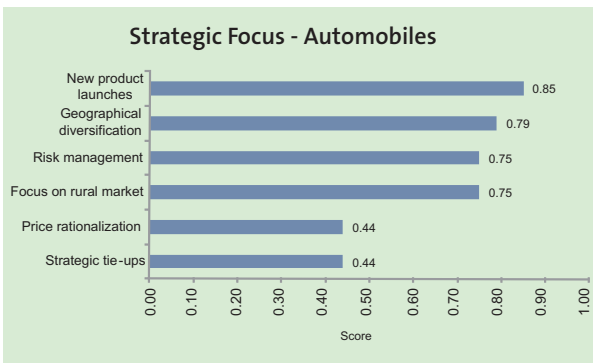
Entry of new players and launch of new models have increased market competition. Nearly 81% of the respondents believe that competition will be the major challenge facing the industry in FY11. Competition has



received the highest ranking with a score of 0.87. High input prices and demand conditions in the export markets were viewed as the other major challenges facing the sector.

### Strategic Focus

New product launches drove growth of the industry in the recent couple of years. For FY11 as well, this is likely to be the key strategic focus of companies, with nearly 81% of the respondents confirming this trend. It had the highest ranking among various key strategies, with a score of 0.85. Geographical diversification, focus on rural market and risk management will be amongst other major focus area for the sector.



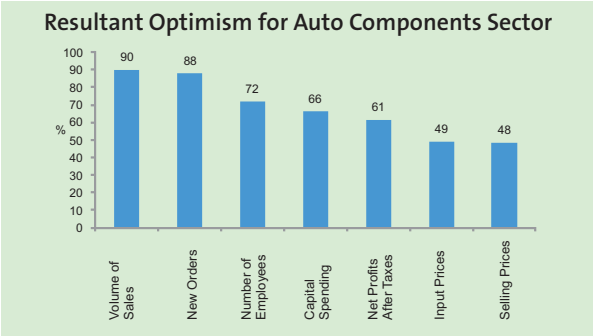
## Auto Components

### Key Highlights

- Companies expect employee strength to increase in FY11
- Domestic demand will drive industry's growth
- Input costs will be the biggest challenge facing the industry
- Cost control programmes will be the key thrust area for FY11

### Performance Indicators

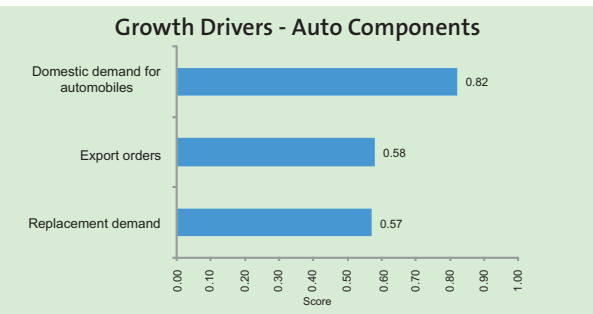
- Auto components manufacturers are extremely positive on the prospects of demand in FY11. A massive 91% of the survey respondents expect sales volumes to increase in the coming fiscal, while only a negligible 1% anticipate fall in volumes. The resultant Optimism for **Volume of Sales** stands at **90%**.
- On the profit front, a significant 72% of the respondents expect net profits to increase in FY11, although about 17% of respondents expect profits to remain unchanged. About 11% of respondents anticipate decline net profits in the coming fiscal. The resultant Optimism for **Net Profits** stands at **61%**.
- While 61% of the survey respondents anticipate input prices to rise, a marginal 12% expect a decline in input prices in FY11. Interestingly, a notable 27% of the respondents do not expect any change in input prices. The resultant optimism for **Input Prices** stands at **49%**.
- A majority of the respondents (54%) expect increase movement in selling prices, although 6% of them anticipate a decrease in selling prices. Meanwhile, a substantial 40% of respondents expect to see no change in selling prices. The resultant optimism for **Selling Prices** stands at **48%**.
- About 89% of the survey respondents expect new orders to increase in FY11, while a negligible 1% expects new orders to decline. The resultant optimism for **New Orders** stands at **88%**.
- On the back of healthy demand outlook, component manufacturers are likely to increase spending on capital expenditure activities. About 71% of the respondents expect to see increase in capital spending, while only 5%



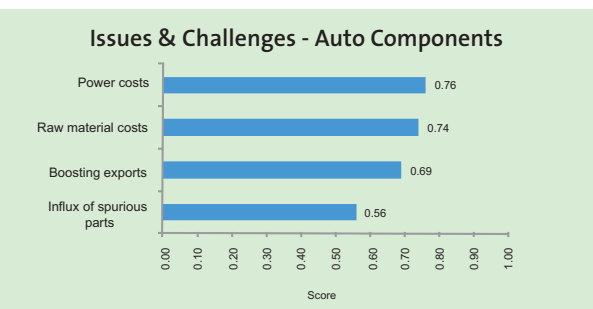
of them anticipate capital expenditure to decline in FY11. About 24% of the respondents expect no change in capital spending. Thus, the resultant Optimism for **Capital Spending** stands at **66%**.

- The survey revealed an encouraging outlook on the workforce front. As much as 72% of the respondents expected to see an expansion in their employee strength and no respondent expects cut down in number of employees. The resultant Optimism for **Employees** stands at **72%**.

### Growth drivers during FY11

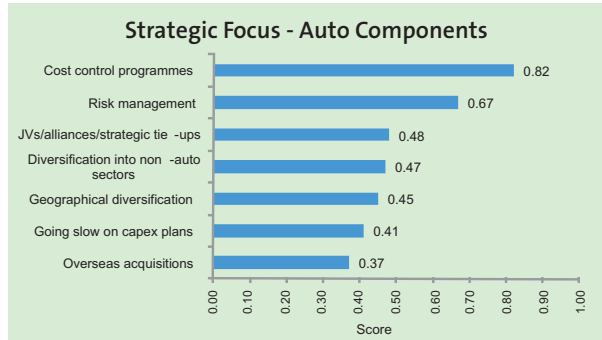


Domestic demand for automobiles will be the most important factor driving growth in the industry. With a score of 0.82, domestic demand for automobiles had the highest ranking; 64% of the respondents attribute this as the major growth driver. Export orders received a relatively lower score of 0.58.



### Issues & Challenges during FY11

Among the key challenges, power costs had the highest ranking, with a score of 0.76. Raw material cost came a close second with a score of 0.74; 57% of the respondents feel that raw material costs will be the major challenge facing the industry.



### Strategic Focus

Cost management and risk management emerged as fundamental focus area for the auto component sector. Around 72% of the respondents revealed that cost control programmes will be the major thrust area, while 52% of the respondents considered Risk management to be a major strategic focus area for FY11.

## Capital Goods

### Key Highlights

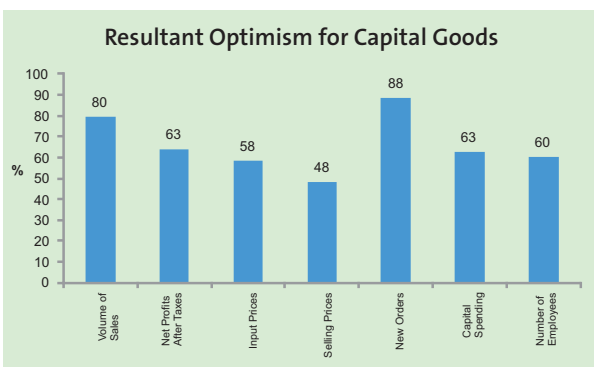
- The capital goods sector is highly optimistic on the New Orders parameter
- A large majority (65%) of respondents intend to increase the number of employees in FY11
- High input costs viewed as the major challenge for FY11
- Risk management would be their most important strategic focus in FY11

### Performance Indicators

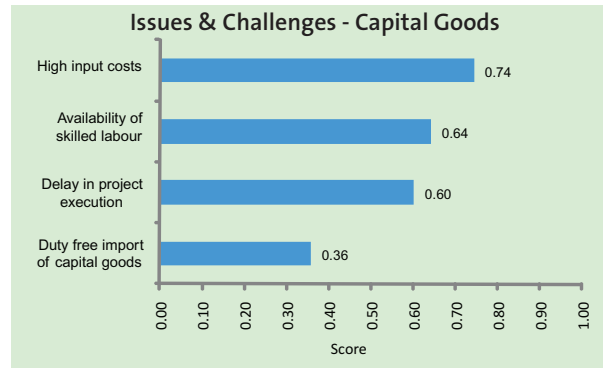
- With the Government substantially increasing the allocation for infrastructure projects in the Union Budget of FY11 and private corporate investment displaying signs of recovery, the capital goods sector are bullish about demand prospects in the forthcoming fiscal. Approximately 85% of the respondents in the capital goods sector expect sales volume to increase while only 5% expect a decline in sales. The resultant Optimism for **Volume of Sales** stands at **80%**.



- Profit expectations among the capital goods sector remains moderate with 73% of the respondents expecting an increase in their net profits during FY11. While about 10% of the respondents are anticipating a fall in net profits, as many as 17% of the respondents are expecting no change in net profits during FY11. The resultant Optimism for **Net Profits** stands at **63%**.
- It has been observed that a huge majority (70%) of respondents expect input prices to go up in FY11. While about 18% of the respondents expect no change in input prices, just 12% expect a decline in input prices. The resultant Optimism for **Input Prices** stands at **58%**.
- The concern regarding high input prices is reflected in the pricing power. A large number of respondents (56%) expect selling prices of their products to go up while about 36% of the respondents anticipate no change in the selling prices. The resultant Optimism for **Selling Prices** stands at **48%**.
- The capital goods sector has shown high optimism on the New Orders parameter. A whopping 89% of the respondents expect an improvement in their order book position, just 1% of the respondents surveyed expect to witness a decline in new orders placed whereas the remaining 10% expect no change in their order book position. The resultant Optimism for **New Orders** stands at **88%**.
- Approximately 70% of the respondents expect capital spending to increase during FY11 while just 7% expect a decline in capital spending. The resultant Optimism for **Capital Spending** stands at **63%**.
- There is also something to really cheer about for job seekers. A large majority (65%) of respondents from the capital goods sector intend to increase the number of employees in FY11 and only 5% expect to see a fall in their number of employees. The resultant Optimism for **Employees** stands at **60%**.



## Issues & Challenges during FY11



While strong macro-economic fundamentals seemed to inspire confidence of the capital goods sector, the cost pressures associated with rising commodity prices was palpable amongst the survey respondents. High input costs scored a ranking of 0.74, indicating that the respondents from the capital goods sector consider it as a major challenge they could face in FY11. Availability of skilled labour and delay in project execution were considered to be the other major challenges by the survey respondents.

## Strategic Focus

The financial crisis and the rising volatility in the currency markets have forced firms to revisit their focus areas. About 60% of the respondents from the capital goods sector were of the opinion that risk management would be their most important strategic focus in FY11. With a score of 0.74, this factor has gained the highest ranking amongst the other factors.





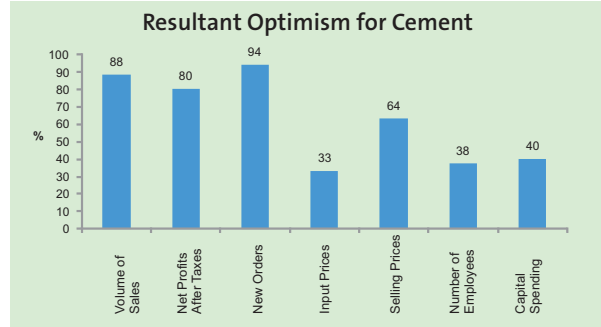
## Cement

### Key Highlights

- Majority of the respondents from cement sector anticipate input prices to remain unchanged
- Government spending on infrastructure expected to drive the cement sector growth
- Capital spending not high on the agenda of majority of the respondents from cement sector given that excess capacity is one of the major challenges for the respondents from the sector

### Performance Indicators

- Respondents from the cement sector expect demand conditions to remain robust during FY11, with as many as 94% of the respondents anticipating increase in sales volume. Another 6% of the respondents anticipate decline in their sales during FY11. The resultant Optimism for **Volume of Sales** stands at **88%**.
- The cement industry appears to be very optimistic with regards to profit with as many as 86% of the respondents expecting Net Profit to increase during FY11. While around 8% of the respondents anticipate the net profits to remain unchanged, 6% expect a decline in their net profits during FY11. The resultant Optimism for **Net Profits** stands at **80%**.
- Majority of the respondents (57%) from the cement sector expect input prices to remain at the FY10 levels during FY11. While about 38% of the respondents from the cement sector expect input prices to increase, 5% anticipate them to decline during FY11. The resultant Optimism for **Input Prices** stands at **33%**.
- The optimism for selling prices is however higher with none of the respondents anticipating a decline in selling prices during FY11. While as many as 64% of the respondents anticipate selling price of their products to increase, around 36% anticipate them to remain unchanged. The resultant Optimism for **Selling Prices** stands at **64%**.
- With anticipated surge in infrastructure spending and increase in demand for real estate, the cement sector seems highly optimistic regarding their order book position. While as many as 94% of the respondents from the cement sector expect an increase in new orders

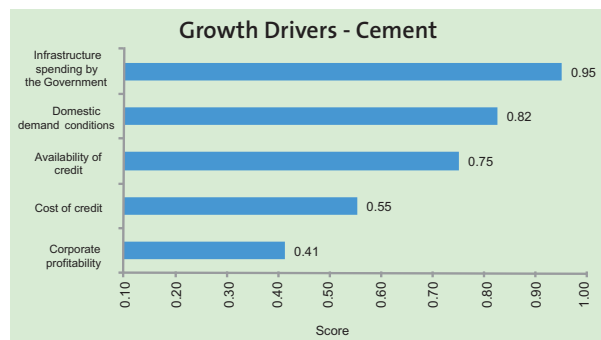


received, none of the respondents anticipate decline in their order book position. The resultant Optimism for **New Orders** stands at **94%**.

- The respondents from the cement sector are not very optimistic about capital spending, with as many as 52% of the respondents anticipate no change in their capital spending. The resultant Optimism for **Capital Spending** stands at **40%**, with around 44% of the respondents expecting increase in their Capital Spending.
- Majority of the respondents from the cement sector anticipate no change in the size of work force employed during FY11. Approximately 58% of the respondents intend to keep the number of employees unchanged. The resultant Optimism for **Employees** stands at **38%** with around 40% of the respondents anticipating an increase in number of employees and 2% expecting a decline.

### Growth Drivers during FY11

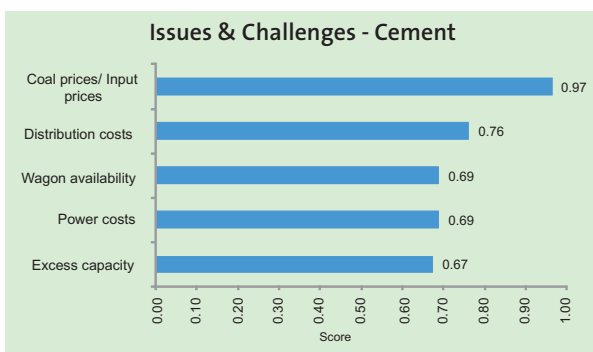
With the increased focus of the government on improving urban as well as rural infrastructure, the respondents from the cement industry believe that the government spending on infrastructure would be a major growth driver in FY11. As many as 89% of the respondents from the cement sector rated infrastructure spending by the government as a major growth driver and another 6% believed it to be moderate growth driver. As per the





responses received, infrastructure spending by the government has received the highest ranking with a score of 0.95. Improving domestic demand conditions came a close second with a score of 0.82, indicating it to be another major growth driver.

### Issues & Challenges during FY11



High input prices has received the highest score of 0.97 indicating that the respondents from the cement sector consider it as a major challenge they could face in FY11. Although the respondents from the cement sector expect the prices to remain at current high levels, around 89% of the respondents believe elevated prices especially of coal to be a major concern during FY11.

### Strategic Focus

With regards to the strategic focus the survey respondents believed modernisation and mergers & acquisitions to be the important strategic focus. These factors received a score of 0.56 each with around 89% of the respondents rating them as an important challenge. Risk management and acquisition of coal mines have come a close second with a score of 0.55.



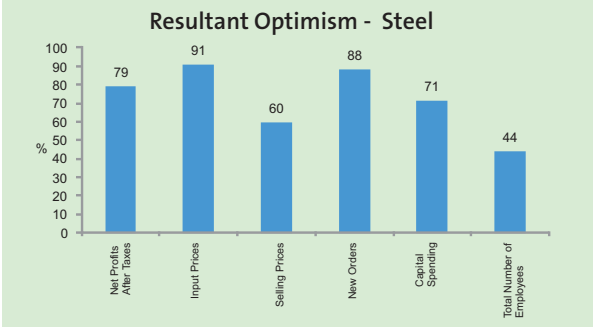
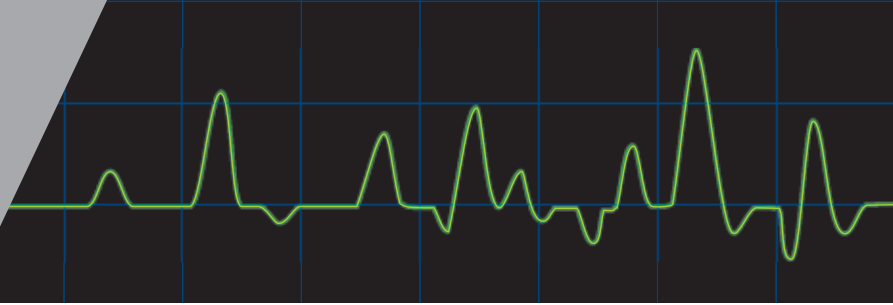
## Steel

### Key Highlights

- Majority of the respondents anticipate input prices in the steel sector to increase during FY11
- Infrastructure spending by the government to be the major growth driver during the forthcoming year
- Majority of the respondents expect raw material prices to be the major challenge for the ensuing fiscal year
- Modernisation of the existing plants considered as the most important strategic focus for the steel sector

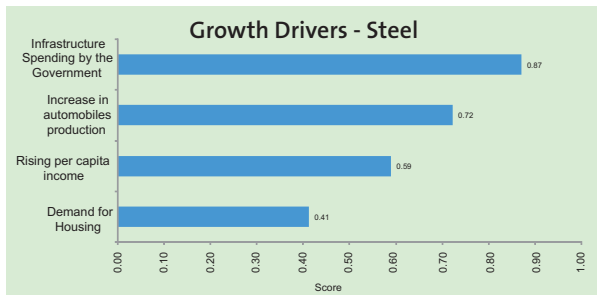
### Performance Indicators

- Majority of the survey respondents in the steel sector remain bullish regarding the demand conditions during FY11. As a result, 93% of the respondents expect the volume of sales to increase during FY11 while only 3% expect a decline. The resultant Optimism for **Volume of Sales** stands at **90%**.
- The level of optimism concerning net profits also remains high among the respondents. Around 85% of the respondents from the steel sector expect an increase in net profits. While 6% are expecting a decline, only 9% expect no change in net profits. The resultant Optimism for **Net Profits** stands at **79%**.
- Majority of the survey respondents, i.e. around 92% anticipate an increase in input prices. While 7% are expecting no change in their input prices, only 1% of the respondents are anticipating a decline. The resultant Optimism for **Input Prices** stands at **91%**.
- Considering higher cost of imported raw materials such as coking coal/metcoke and robust demand conditions around 61% of the respondents in the steel sector anticipate an increase in the selling prices of their products. While 38% expect no change, only 1% of the respondents expect a decline in the selling prices. The resultant Optimism for **Selling Prices** stands at **60%**.
- With as many as 91% of the respondents expecting an increase in new orders during FY11, the level of optimism remains very high in this sector regarding the new orders parameter. Only 3% of the respondents expect a decline in the new orders placed. The resultant Optimism for **New Orders** stands at **88%**.



- Regarding capital spending in the steel sector, the respondents remain optimistic with around 72% expecting an increase in their capital spending while 27% are expecting no change in their capital spending. Only 1% of the respondents expect their capital spending to decline during FY11. The resultant Optimism for **Capital Spending** in the steel sector stands at **71%**.
- With 49% of the respondents expecting an increase in the no of employees and around 46% expecting no change, the resultant Optimism for the **Employees** stands at **44%**.

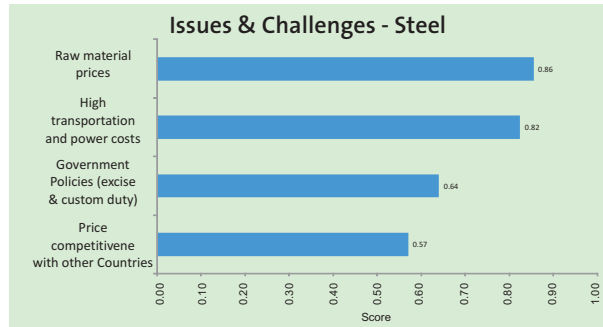
### Growth Drivers during FY11



The government had focused on infrastructure spending during the Union Budget of FY11. As a result, infrastructure spending by the Government has been considered by the respondents in the steel sector as the major growth driver. The score for this parameter stands at 0.87. With a score of 0.72, automobile production has been considered as the second most important growth driver for the sector.

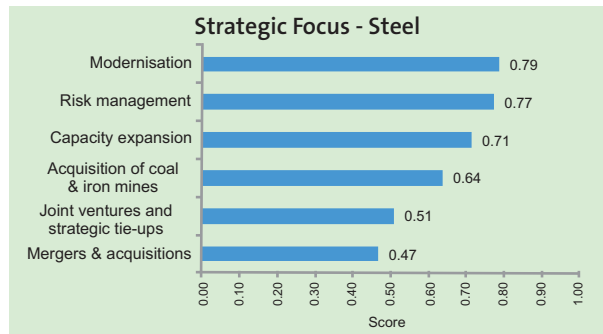
### Issues & Challenges during FY11

With firming up of international raw material prices (especially coking coal which is widely used and heavily imported by the sector) raw material prices have been considered as a major challenge for the ensuing fiscal year. With a score of 0.86, this parameter has got the highest ranking closely followed by transportation and power costs.



### Strategic Focus

With the firm recovery in the sector, the respondents have considered modernisation of their existing plants as their most important strategic focus for FY11 closely followed by risk management in order to remain more competitive. With a score of 0.79, modernisation has got the highest ranking.



## Textiles

### Key Highlights

- Demand for the textile sector expected to improve substantially
- Recovery in global demand considered as a major growth driver
- High input costs a major challenge to be faced by the players in the textile sector during FY11
- Penetrating the domestic market would be the most important strategic focus of the textile sector

### Performance Indicators

- Majority of the survey respondents from the textile sector expect demand conditions to improve in FY11. While as many as 89% of the respondents anticipate increase in their sales during FY11, 2% of the

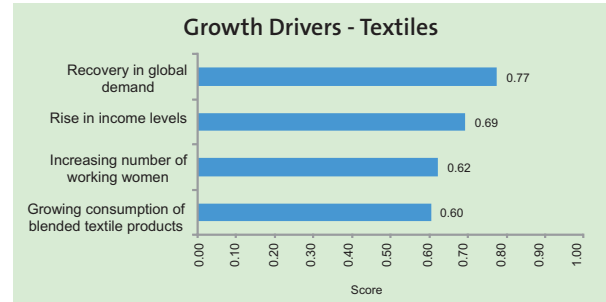


respondents expect their sales to decline. The resultant Optimism for **Volume of Sales** stands at **87%**.

- The respondents from the textile sector, however, are relatively less optimistic with regards to Profit expectations with around 82% of the respondents anticipating increase in net profits and 3% of the respondents expecting net profits to decline in FY11. Approximately 15% of the respondents anticipate net profits to remain unchanged from the current levels. The resultant Optimism for **Net Profits** stands at **79%**.
- While about 68% of the respondents from the textile sector anticipate selling prices of their products to increase, about 5% anticipate them to decline during FY11. Another 27% of the respondents expect selling prices to remain unchanged. The resultant Optimism for **Selling Prices** stands at **63%**.
- Approximately 89% of the respondents from the textile sector anticipate an increase in their order book position, while around 5% anticipate a decrease in the new orders during FY11. The resultant Optimism for **New orders** stands at **84%**, pointing towards high optimism regarding new order in the respondents from the textile sector.
- Capital spending in the textile sector is expected to remain muted with as many as 43% of the respondents expecting no change in capital spending in FY11. While around 50% of the respondents expect their capital spending to improve around 7% of the respondents anticipate it to decline during FY11. The resultant Optimism for **Capital Spending** stands at **43%**.
- Expectations of the respondents from the textile sector remained moderate with regards to employment, with the resultant Optimism for **Employees** at **35%**. The lower optimism in employee level is due to large number of respondents anticipating the employee level to remain unchanged rather than decline. While around 47% of the respondents anticipate increase in

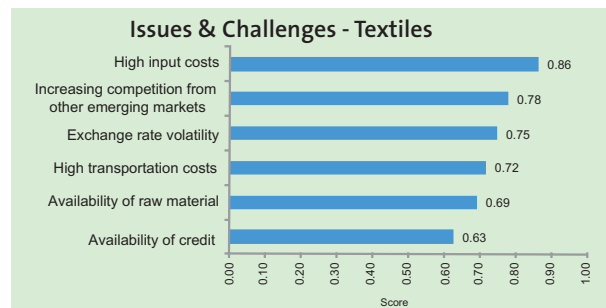
workforce employed, around 41% of the respondents intend to keep the number of employees unchanged.

## Growth Drivers during FY11



Given the export oriented nature of the textile industry, as many as 57% of the respondents from the textile sector consider recovery in global demand conditions as a major growth driver. With a score of 0.77, this factor has gained the highest ranking amongst the other factors.

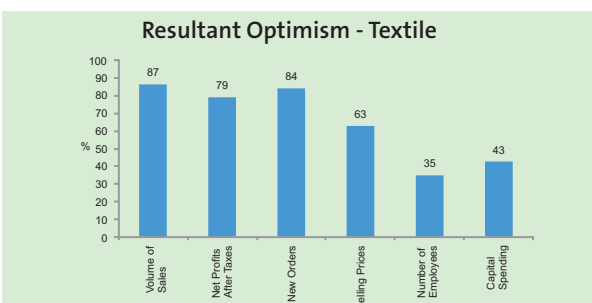
## Issues & Challenges during FY11



High input cost has received the highest score of 0.86 indicating that the respondents from the textile sector consider it as major challenge they could face in FY11. With rapidly mounting inflationary pressures, 72% of the respondents from the textile sector anticipate high input cost to be a major challenge. Increasing competition from the emerging markets as well as exchange rate volatility is considered to be other major challenges and have a score of 0.78 and 0.75 respectively.

## Strategic Focus

Due to its dependence on the exports, the Indian textile industry had suffered a setback with the advent of the global economic crisis. At this backdrop, as many as 92% of the respondents from the textile sector believe that penetrating in the domestic market to be the most important or an important strategic focus in FY11. With a score of 0.84 this factor has gained the highest ranking amongst the other factors.





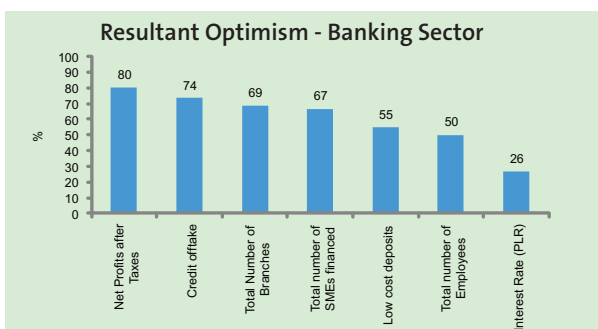
## Banking

### Key Highlights

- Credit offtake anticipated to increase substantially
- Majority of the respondents expect their NPAs to remain above 3% in FY11
- Competitive environment tops amongst the list of major challenges in FY11

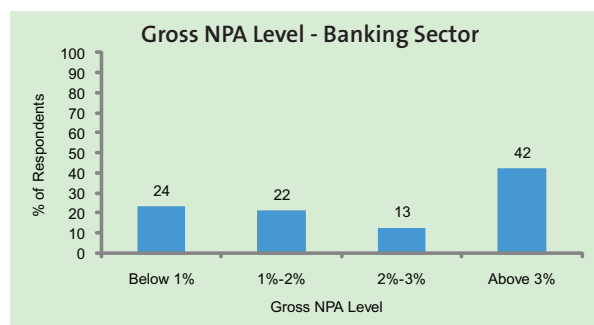
### Performance Indicators - Banking Sector

- The better economic growth prospects for FY11 as well as decline in the risk aversion on the part of banks seems to have led almost 76% of the respondents from the banking sector to expect increase in credit offtake. The resultant Optimism for **Credit Offtake** stands at **74%**.
- With around 85% of the respondents from the banking sector expecting **Net Profit** to increase, the resultant Optimism for this parameter stands at **80%**. This is indicative of further improvement in the balance sheets of the banking sector in FY11.
- The survey reveals that about 43% of the respondents expect PLR to increase, while 40% of the respondents expect PLR to remain unchanged. The resultant Optimism for **Interest Rates (PLR)** stands at **26%**.



- Despite around 66% of the respondents expecting increase in **Low Cost Deposits**, the resultant Optimism for this parameter stands at **55%**. The low level of the resultant optimism for this parameter is due to substantial number of respondents who expect low cost deposits to decrease in FY11. Apart from this, about 24% of the respondents expect no change in the low cost deposits.
- The positive aspect of the expected rise in credit offtake is that the number of SMEs financed is expected to increase in FY11 as per 71% of the respondents. The resultant Optimism for **SMEs Financed** stands at **67%**.
- With the expected improvement in the financial performance of the banking sector, about 73% of the respondents expect a rise in the number of branches. The resultant Optimism for the **Number of Branches** stands at **69%**.
- The total number of employees is also expected to increase as per 62% of the respondents. However, with 12% of the respondents anticipating decline in number of employees and 26% of the respondents expecting the number of employees to remain unchanged, the resultant Optimism for **Employees** stands low at **50%**.

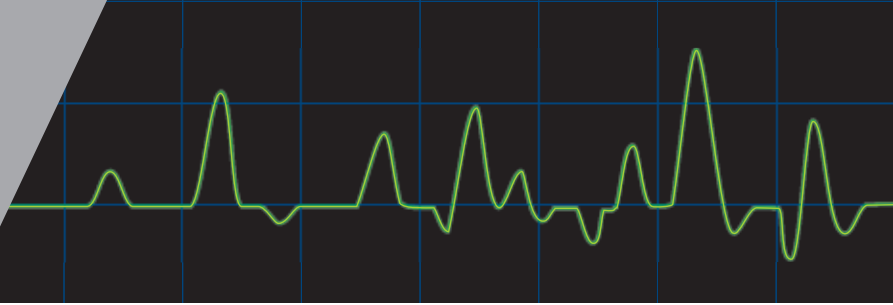
### Gross NPA Level



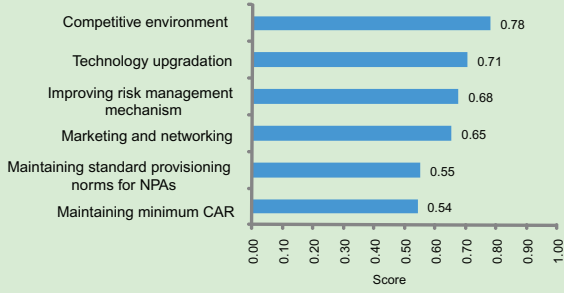
The survey result reveals that as many as 42% of the respondents expect their Gross NPAs to remain above 3% in FY11. This is indicative of large share of bad assets in the total assets of banks.

### Issues & Challenges during FY11

Competitive environment has scored 0.78, with around 59% of the respondents from the banking sector considering it as a major challenge they could face in FY11. Further, despite the expected high level of NPAs, only 32.7% of the respondents consider maintaining standard provisioning norms for NPAs as the major challenge.



### Issues & Challenges - Banking Sector



## Insurance

### Key Highlights

- Urbanisation and rise in income levels expected to be key growth drivers in FY11
- Competitive environment and shortage of skilled resources will be the major challenges to be faced by the industry in FY11
- Majority of the respondents consider both risk management and launching of tailor made products as their strategic focus area in FY11

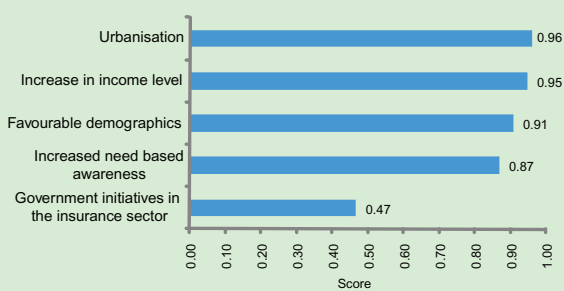
### Performance Indicators

The survey reveals that the respondents from the insurance sector are very optimistic on all 5 parameters namely Net profits, First Year Premium, Number of Policies Issued, Total Number of Employees and Total Number of Agents.

### Growth Drivers during FY11

With as many as 92% of the respondents expecting urbanisation to drive growth of insurance sector in FY11, urbanisation has gained the highest score of 0.96.

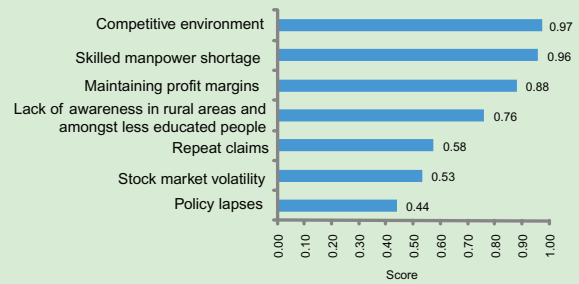
### Growth Drivers for Insurance Sector



Government initiatives in the insurance sector, on the other hand, has scored lowest as just 4% of the respondents consider this factor to be the major growth driver for insurance sector in FY11.

### Issues & Challenges during FY11

### Issues & Challenges for Insurance Sector

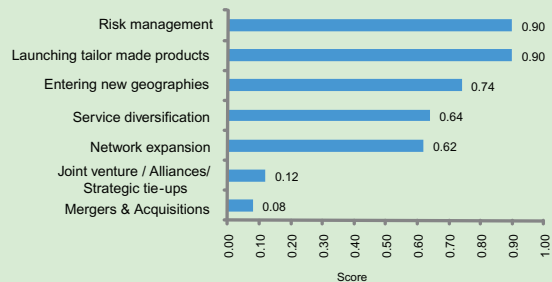


In view of the entry of new players in the insurance sector, almost 92% of the respondents have rated competitive environment to be the major challenge faced by them in FY11. Competitive environment gained the highest score of 0.97.

### Strategic Focus

The survey reveals that around 88% of the respondents from the insurance sector consider both risk management and launching of tailor made products as their strategic focus area in FY11, in turn leading both the factors to gain the highest score of 0.90. At the same time, the respondents are not very keen about 'mergers & acquisitions' and 'joint ventures/alliances/strategic tie-ups'. This can be evident from the survey data which reveals that as many as 88% of the respondents consider these two factors to be less important.

### Strategic Focus for Insurance Sector



## IT-ITeS

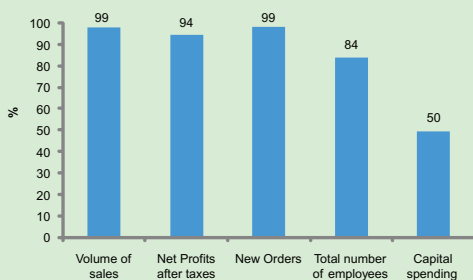
### Key Highlights

- Almost all the respondents in the IT/ITeS sector expect an increase in Volume of Sales, Net Profits and New Orders
- FY11 is likely to bring cheer for job seekers in the IT-ITeS sector
- Exchange rate volatility foreseen as the major challenge in FY11
- Consolidating business with repeat client and win newer clients would be the most important focus area in FY11

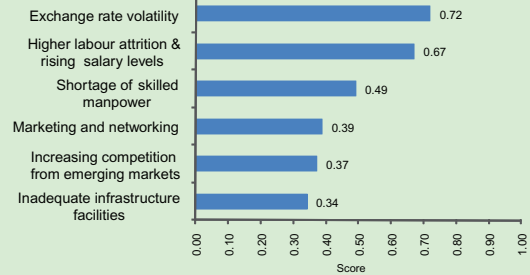
### Performance Indicators

- The IT-ITeS sector is highly optimistic about business prospects in FY11. Almost all the respondents in the IT/ITeS sector expect an increase in Volume of Sales, Net Profits and New Orders. The resultant Optimism for **Volume of Sales, Net Profits and New Orders** stands at **99%, 94% and 99%** respectively.
- Expectations for capital spending, however, paint a different picture. While 50% of the respondents expect to increase capital spending, an equal number of respondents also expect it to remain unchanged in the coming fiscal. The resultant Optimism for **Capital Spending** stands at **50%**.
- While hiring of personnel across the IT-ITeS industry had entered into a lull in FY10, FY11 is likely to bring cheer for job seekers in the IT-ITeS sector as a large majority of the respondents (84%) foresee an increase in headcount. Not a single respondent indicated a decline in the number of employees. The resultant Optimism for **Employees** stands at **84%**.

Resultant Optimism for IT-ITeS Sector



Issues & Challenges for IT-ITeS Sector



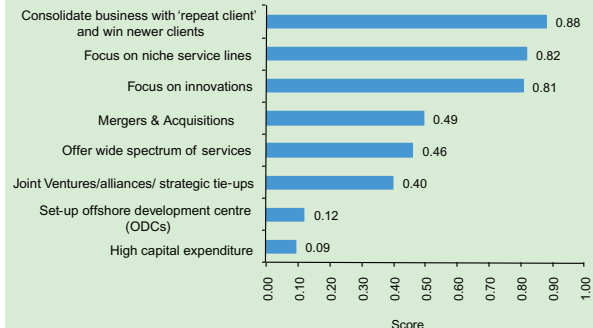
### Issues & Challenges during FY11

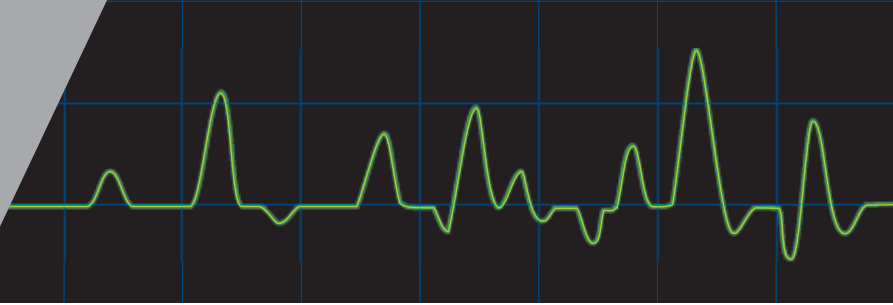
Exchange rate volatility, with a score of 0.72, was foreseen as the most important challenge in FY11. 41% of the survey respondents expect exchange rate volatility to be a major concern area in FY11. Higher labour attrition & rising salary levels was seen as the second important concern area.

### Strategic Focus

As many as 76% of the respondents believe that consolidating business with 'repeat client' and win newer clients would be the most important strategic focus in FY11. With a score of 0.88, this factor has gained the highest ranking amongst the other factors. Focusing on niche service line came a close second with 63% of the respondents indicating this factor as the most important focus area in FY11.

Strategic Focus for IT-ITeS Sector





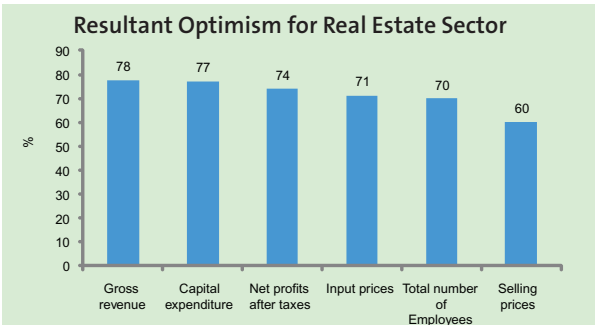
## Real Estate

**Key Highlights**

- Gross revenue of real estate companies expected to increase in FY11
- Domestic demand conditions viewed as the key growth driver in FY11
- Competitive environment coupled with fluctuations in raw material prices amongst the key issues to be faced in FY11
- A large number of respondents consider risk management as their key focus area in the next fiscal

### Performance Indicators

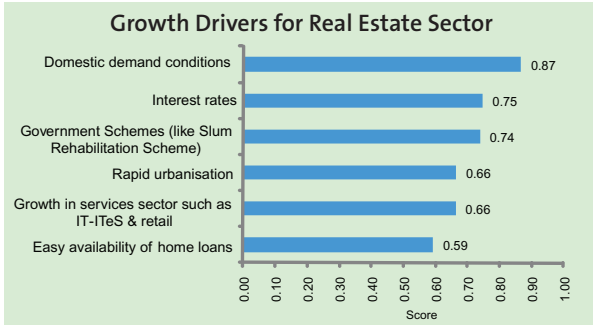
- With the Indian economy firmly on the revival path, respondents from real estate sector have turned optimistic with regards to gross revenue. As many as 88% of the respondents expect an increase in gross revenue, leading the resultant Optimism for **Gross Revenue** to stand at **78%**.
- Almost 82% of the respondents expect an increase in the net profits for FY11. This has led the resultant Optimism for **Net Profits** to stand at **74%**.
- In view of rising inflationary pressures across the sectors, as many as 80% of the respondents from real estate sector expect an increase in input prices as against 20% of the respondents who expect input prices either to decline or remain unchanged. As a result, resultant Optimism for **Input Prices** stands at **71%**.
- Despite rising input prices, a lower number of respondents (around 69%) expect rise in their selling price. On the other hand, almost 23% of the



respondents expect the selling prices to remain unchanged, while 9% expect a fall in selling prices. As a result, the resultant Optimism for **Selling Prices** stands lower at **60%**.

- The investment activity in the real estate sector is expected to witness further improvement in the next fiscal, with as many as 82% of the respondents expecting an increase in capital expenditure. The resultant Optimism for **Capital Expenditure** stands at **77%**.
- In view of the improving growth prospects of the real estate sector, 78% of the respondents expect an increase in number of employees. The resultant Optimism for **Employees** stands at **70%**.

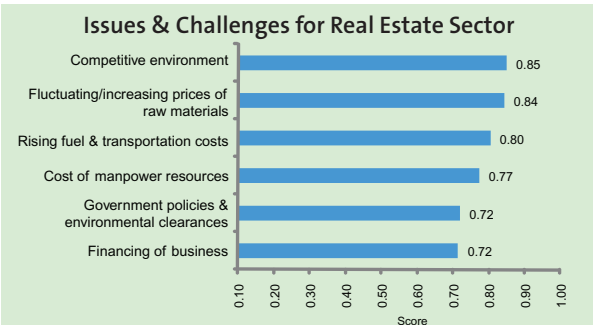
### Growth Driver during FY11



A majority of the respondents from the real estate sector expect domestic demand conditions as the key growth driver in the fiscal year 2011. With a score of 0.87, this factor has gained the highest ranking amongst the other factors.

### Issues & Challenges during FY11

Competitive environment has scored 0.85, with around 68% of the respondents from the real estate sector considering it as a major challenge they could face in FY11. Fluctuating/increasing prices of raw materials though has





gained the second highest score of 0.84, almost 71% of the respondents view this factor as the major challenge. However, a greater number of respondents who consider it as not a challenge at all have dragged down the overall score for this factor.

### Strategic Focus

Although technology upgradation has gained the highest score of 0.81 in the survey, the data reveals that a greater number of respondents consider risk management as their key focus area in the next fiscal. At the same time, around 14.4% of respondents expect risk management to be less important as against 5.9% of the respondents who consider technology upgradation as less important, in turn leading risk management to score less. Further, despite improving business sentiment in the country, mergers & acquisitions are likely to be at lower level in FY11, with just 40% of the respondents viewing mergers & acquisitions as part of their strategic focus for FY11.



## Retail

### Key Highlights

- Majority of the respondents anticipate average footfalls at the store(s) per day to increase during FY11
- Increase in the number of young working group population to be the major growth driver in retail sector during the ensuing year
- Competitive environment to be the major challenge during FY11
- Customer service has emerged as the strategic focus for the retail sector during FY11

### Performance Indicators

- With the demand conditions in the economy gaining momentum, the respondents in the retail sector are

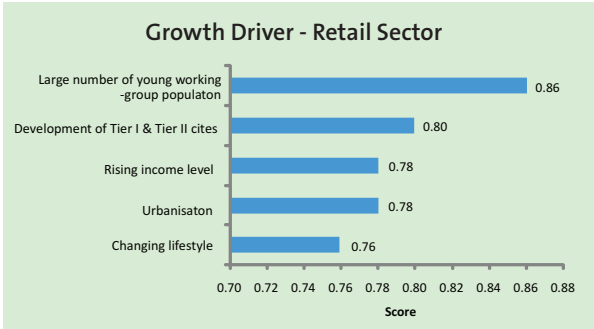
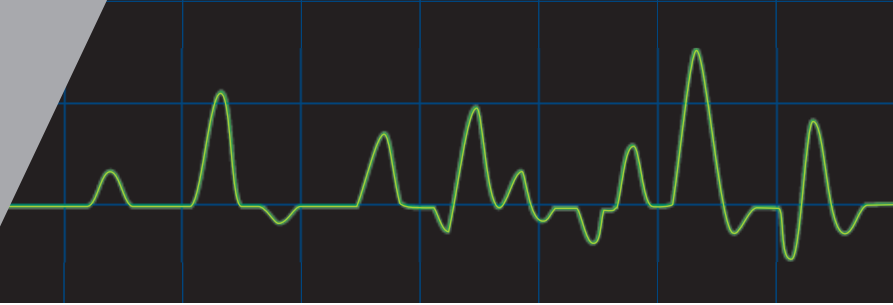


highly optimistic regarding the volume of sales. As many as 81% of the respondents in the sector anticipate an increase in the volume of sales, while only 10% believe that their volume of sales will decline during FY11. The resultant Optimism for **Volume of Sales** stands at **71%**.

- The respondents in the retail sector are very optimistic with regards to net profits as well, with as many as 83% anticipating an increase. While around 14% of the respondents anticipate no change in the net profits, only 3% expect a decline. The resultant Optimism for the **Net Profits** stands at **80%**.
- Almost 74% of the respondents from the retail sector believe that input prices are going to increase during FY11. While 8% expect input prices to decline, around 18% anticipate no change in the input prices. The resultant Optimism for **Input Prices** stands at **66%**.
- As many as 76% of the respondents expecting an increase in the average footfalls per day, indicating that the sector is highly optimistic regarding improvement in demand conditions. While only 8% anticipate a decline, around 16% are expecting no change in the above mentioned parameter. The resultant Optimism for the **Average Footfalls/day** stands at **68%**.
- Optimism regarding employment situation in the retail sector is quite upbeat. While 62% of the respondents expect an increase in the number of employees, 35% believe that there would be no change and only 3% are anticipating a decline. The resultant Optimism for the **Employees** stands at **59%**.

### Growth Driver during FY11

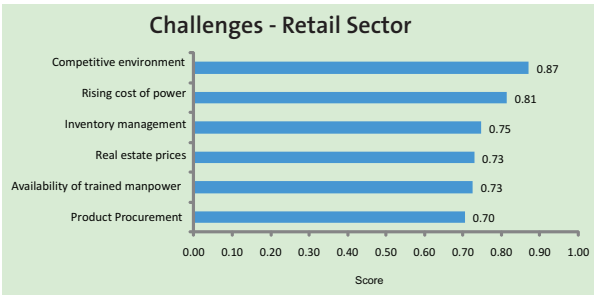
With a score of 0.86, increase in number of young working group population have been considered as the major growth driver by the respondents in the retail sector. Development in Tier I & Tier II cities, rising income level and



growing urbanisation has also been considered by the players as other major growth drivers for the sector.

### Issues & Challenges during FY11

With relatively large number of players in the retail sector, competitive environment has been considered as the major challenge by a majority of the players (65%) in the sector during FY11. Rising cost of power with a score of 0.81 has been considered as the second major challenge followed by inventory management which has a score of 0.75.



### Strategic Focus



About 82% of the respondents anticipate that customer service would be the most important strategic focus during FY11. With a score of 0.91, customer service has received the highest ranking among the other alternatives. Cost management, with a score of 0.86, has been considered by around 78% of the respondents as the second most important strategic focus during FY11.

### Methodology

The survey has been conducted on a randomly selected sample of companies belonging to 11 different sectors. The samples selected are microcosmic representation of the sectors comprising of large, medium and small companies. All the respondents in the survey were asked questions regarding their expectations about the performance of their company during FY11. Further, the survey also consisted of questions covering some qualitative parameters in an attempt to identify the growth drivers, challenges and strategic focus of the companies belonging to different sectors.

For performance indicator, the respondents were asked whether they perceive an increase, decrease or expect no-change with regard to some specific performance indicators (which differ according to sectors) in FY11 as compared to the previous year. Further, resultant Optimism is calculated by subtracting the percentage of respondents that expect a decrease from the percentage of respondents that expect an increase.

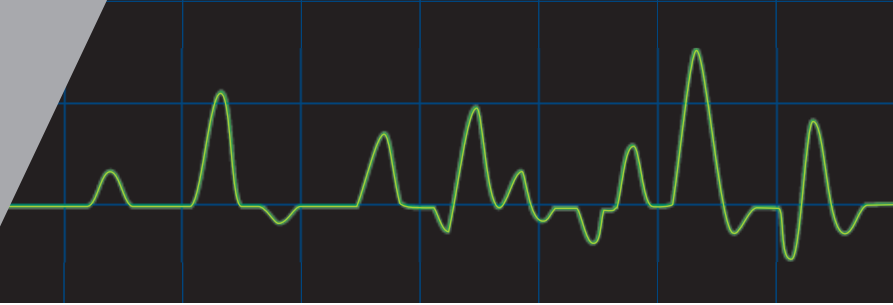
For qualitative parameters, the respondents were asked to rate the options of each qualitative factor between high importance and low importance. Each rating is given weights in order to calculate rating score. Rating score is calculated by multiplying percentage response for each rating with corresponding weights and then aggregating to arrive at the final score. The specified range for score is between 0 - 1 where 1 is recognised as most important.



Decide with Confidence

A graphic showing a green line graph with several peaks and troughs, set against a dark blue grid background. The line represents economic data, with the highest peak occurring towards the right side of the graph. The background is split into a light grey trapezoidal shape on the left and a dark blue grid on the right.

# Economic Growth Drivers



## Growth Drivers

After suffering a setback on account of global financial crisis, the Indian economy has begun to recover. Strong fundamentals have helped the economy to minimise the impact of the crisis and this is what is going to be instrumental in a faster economic revival. The current phase of growth would be crucial in determining the future prospects of the economy. It is thus important to take integrated efforts towards further strengthening the fundamentals of the economy and fulfill the aspiration of achieving a double digit growth in future.

The aspiration as well as the need to achieve a stronger growth level can only be attained through realisation of the full growth potential of some key growth areas. However, with rising aspirations, it is vital for the economy to have 'inclusive' and 'sustained' growth which requires reduced poverty ratio, better infrastructure, an educated population and employment generation for all.

D&B has identified some key growth stimulators that have the potential to drive the Indian economy on a double digit growth trajectory over the next five years i.e. 2014-15. While we do believe that these factors have the potential to bring about the double digit growth levels, these are the necessary but not sufficient conditions to achieve this level. Necessary and integrated efforts are required to be taken by the Government as well as the private sector in order to strengthen these drivers to achieve high GDP growth rate. The following section aims at elucidating the future growth drivers of India's economic growth; which are as follows:

1. **Agriculture development**
2. **Substantial Push to Investment with Special Emphasis on Infrastructure Investment**
3. **Education**
4. **Development of MSMEs: Key Employment Generator**

### Agriculture Development

Despite the substantial decline in share of agriculture sector in the GDP over the years, the fact that almost 60% of people are dependent on agriculture & allied activities for their food and livelihood, underscores the significance of the agriculture sector to sustain growth in the country. Further, it accounts for around 15% of total export earnings

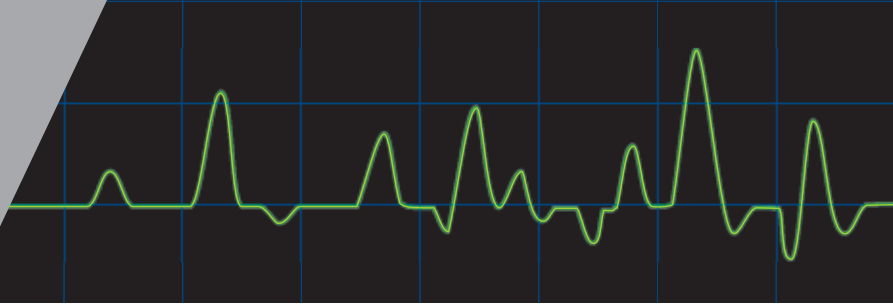
and is an important source of raw materials for many industries.

In recent years, the agriculture sector has witnessed some deceleration in growth primarily due to its dependence on monsoon, low level of investment in agriculture sector and decline in net sown area owing to growing industrialisation. The deceleration in agricultural growth need to be reversed as the low agriculture sector growth at the backdrop of an impressive growth in industry & services sectors could have adverse implications in terms of wide disparities between income of agriculture & non-agriculture sector. Besides, with the rising population and substantial increase in income, especially of non-agricultural workforce, there is a huge demand potential for agriculture & agro-processing industries. As per the 'Agriculture Policy Vision 2020', there would be around 2.5 mn tonnes of extra demand for food grains annually, while significant increases are being needed in the supply of livestock, fish & horticulture products as well.

The Eleventh Five-Year plan (2006-07 to 2011-12) has set a target of 4% growth in agriculture sector to achieve 9% GDP growth. The strong agriculture sector growth will not only help in ensuring food security but will also help in achieving the government's key objective of inclusive growth. However, according to D&B's estimates, if Indian economy has to achieve an annual average GDP growth of around 9.5-10% in the next five years, agriculture sector has to grow by around 4.5-5.0%. In order to facilitate this growth, investment in agriculture sector should grow significantly in next five years. It has to grow from the current level of around 22.0% (agriculture GCF as percentage of agriculture GDP) to around 30% by the end of 2014-15. This estimate is based on the analysis of poor productivity rate in agriculture sector.

The rise in agriculture sector growth could also be achieved by improving the productivity and efficiency of capital while maintaining a relatively lower agricultural investment rate. The fact that agricultural productivity in many states of India is low; point towards a significant scope for the improvement in the productivity and efficiency of the capital.

Further, given that modern technologies for agriculture sector require increased use of water, there should be significant rise in area covered under irrigation facilities.



This will also help in unleashing the agriculture sector from the vagaries of monsoon, in turn leading to enhancement of land productivity in dry & rain-fed regions. However, the timely & effective implementation of irrigation projects coupled with people's participation is vital in order to achieve the desired objectives.

In addition to this, measures such as increasing power supply to the agriculture sector, improving credit facilities for farmers, establishing competitive seed markets & ensuring attractive prices for seeds, improving terms of trade for agriculture and strengthening of agriculture-industry linkages should remain high in the policy framework for agriculture sector. Given that post-harvest losses generally range from 5-10% for non-perishables and about 30% for perishable farm output, an emphasis should be placed on development of post-harvest handling & agro-processing in order to minimize the post-harvest losses.

### **Substantial Push to Investment with Special focus on Infrastructure Investment**

Sustained increase in investment has been one of the crucial factors behind India's success of reaching and sustaining a growth rate of above 9% for three consecutive years prior to the global economic meltdown. Now that the Indian economy has stabilised and reviving, big push in investment seems inevitable to take India on a high growth trajectory again.

India has the potential and must set its sights on achieving a close to double-digit growth rate in GDP in the next five years. Favourable demography along with an expected rapid growth in urbanisation and the briskly rising middle class in the country would further unlock the huge demand potential instated within the domestic economy. These factors also point towards the inherent potential for robust growth in consumerism and need for infrastructure development which in turn would call for huge investment cycle in India.

For attaining and maintaining a growth rate of around 10%, amongst other things India must focus on augmenting its investment rate and also improving its capital productivity. According to D&B's estimates, if Indian economy has to achieve an annual average GDP growth of around 9.5-10% in the next five years, investment rate should touch a high 39%-40% of the GDP assuming that the Incremental Capital Output Ratio (ICOR) is maintained at around 4%. This high growth could

also be achieved by improving the productivity and efficiency of capital while maintaining a relatively lower investment rate. If the ICOR reduces to around 3.5-3.7% implying improvement in productivity and efficiency of capital, India can achieve a growth rate of 9.5-10% with an investment rate of around 36-37% of GDP.

An important aspect of boosting investment would be availability of means to finance the investment requirement. In order to cater to the huge financing requirement India would have to augment its savings rate through a combination of domestic as well as foreign savings. While the savings rates of the private sector would tend to increase with falling dependency ratios, rising incomes, developing financial sector and greater financial inclusion, increased government savings as well as sustained foreign investment would be needed for the overall savings to match the required investment.

### **Focus on Infrastructure:**

The Indian economy has experienced considerable growth in the infrastructure segment in the past few years; however lack of adequate infrastructure is still one of the major impediments in country's development. According to the latest world development indicator, percentage of sales due to electrical outages (which is taken as proxy for under-developed infrastructure) in India is much higher than the other developing countries like China, Brazil etc. For facilitating economic growth it is essential that the India overcomes the infrastructure bottlenecks in terms of road connectivity, insufficient power supply, underdeveloped ports, lack of irrigation facilities, etc. Infrastructure development would also be an instrumental factor for achieving inclusive growth.

Thus, India needs to build an effective, efficient, scalable and sustainable infrastructure that would support the economy to achieve and sustaining high growth levels. Infrastructure development is not only a major driver for growth but it also works as magnet for investments. As per D&B's analysis the growth in infrastructure investment should be almost double the required rate of GDP growth. Therefore, India would witness substantial investment requirement in infrastructure as the economy transits to the high growth trajectory.

According to D&B's estimates, infrastructure investment needs to surge to near 12% of GDP by 2014-15 for achieving a GDP growth rate of around 10%. In order to achieve these high levels of investment and bring about significant development in this sector,



government efforts towards expediting initiation and completion of infrastructure projects along with increased transparency in involvement of the private sector would be necessary.

## Education

India's GDP has been on a strong growth trajectory over the last five years. However, the education system which contributes towards ensuring a steady/strong supply of educated people has not kept pace. While the government allocation on education has been increasing consistently over the past few years, they have not yielded the desired outcome. The number of illiterates in India is probably the highest among all nations of the world. A little more than half of India's population is under the age of 25 and the national workforce is expected to account for 25% of the global workforce by 2020. However, this huge working-age population can be an economic asset and give India a potential competitive advantage over many advanced economies if they are educated. An improvement in the reach and quality of education can play a pivotal role in accelerating the current growth momentum.

Projections from various industries also show a widening gulf between demand and supply of talented professionals. A significant proportion of the workforce (even amongst the educated populace) does not have skills consistent with job market requirements. Ensuring an adequate supply of highly skilled and technically trained manpower would be a critical enabler and a facilitator of sustainable economic growth.

There is a need for partnership between the state and private sector to further boost higher education in the country. India can generate a greater volume of qualified jobseekers through PPPs that strengthen industrial-training institutes and create more vocational programmes that are tailored to the needs of various industries. Ideally, there should be increased integration between institutions involved in supply of labour, including training and educational institutions, and the business sector that constitutes the demand side of labour. To facilitate the aforementioned recommendations, investment in education sector needs to be stepped up. According to D&B estimates, in order to support overall GDP growth at around 9.5-10%, Government spending as a percentage to GDP has to increase to more than 5.0% by end of 2014-15 from current 3.2% (Budget Estimates) in FY10.

## MSME-Potential Employment Generator

India can accelerate its growth rate to achieve a double digit level within the next five years if its manufacturing sector expands at a much higher rate than it is currently growing. In order to bring about the additional growth, greater focus needs to be given to the MSME sector as it contributes to 8% of India's GDP, 45% of the manufactured output and 40% in terms of exports. The MSME sector in India has played an important role in not only sustaining economic growth, but also creating new entrepreneurship besides generating employment. Moreover, MSMEs owing to its significant contribution in achieving various socio-economic objectives would play a critical role as part of fostering inclusive growth. SME's which are predominantly spread across the length and breadth of the country facilitates expanding production in a regionally balanced manner thereby reducing the inter-regional and rural-urban disparities in growth – a pre-required condition to achieve an overall inclusive growth.

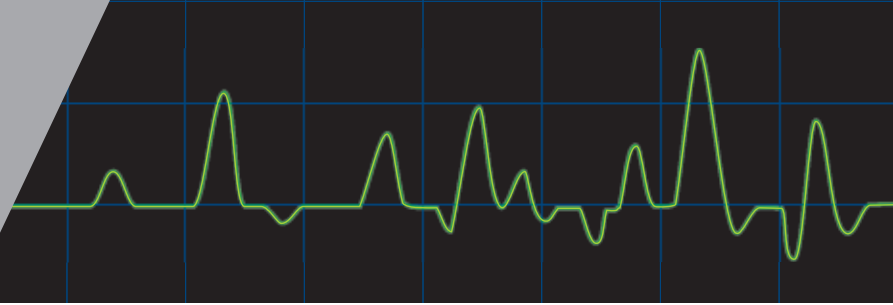
Post the period of slowdown as India traverses the high growth trajectory; SME's will hold the potential to contribute as one of the major growth driver for the economy. Being the highest employment generators they could help in sustaining the purchasing power and thereby boost the consumption demand within the economy. As India strides forward, there would be rapid urbanisation taking place in small towns and villages. This would cause further migration of labour from agriculture to the manufacturing sector. At this phase it is the small scale industries, spread across the country, which has the potential to facilitate the structural shift in the economy by absorbing the labour force. A healthy growth of small scale industries more so rural industries is thus very much required for solving the unemployment and under-employment problem in the society especially the disguised unemployment in the agricultural sector. With the increasing government focus on education, which now covers even the remotest of all villages, more educated and skilled workers will be increasingly available. The effective absorption of the workers in a sustainable manner in productive capacities would help in traveling the extra mile to achieve that near double digit growth level.

Despite policy targeted towards the development of small scale industries, the progress of Indian SMEs continues to be hindered by some of the basic constraints such as lack of adequate, timely and easy availability of credit,



Decide with Confidence

# Economy Outlook 2010-11



negligible flow of equity capital into the sector, low levels of technology adoption and inadequate infrastructure. While these factors continue to affect the efficiency and development of the small scale industries, the most important hindrance which would require more attention is institutional credit availability. High cost of borrowing from non-institutional sources not only erodes the price competitiveness but also leads to inadequate development in wages. If the hurdles in credit availability can be mitigated and investments by the MSME's augmented by an average of 25% per annum for the next five years, then the number of people absorbed in employment in these small scale industries will almost double from the current levels of 32.2 million by 2014-15.

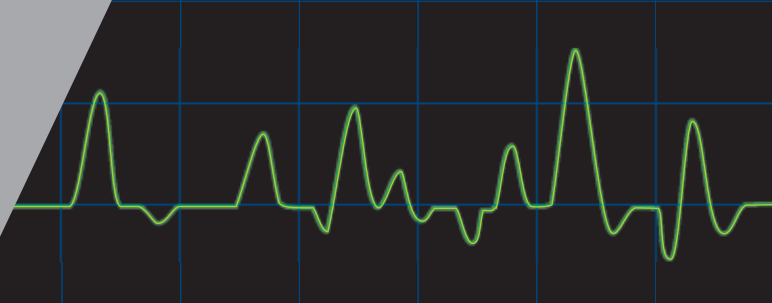
Moreover, since more than 94% of MSMEs are unregistered, with a large number established in the informal or unorganized sector, they fall outside the purview of the various schemes and measures taken by the Government to facilitate the sector. The solution lies in not only correctly identifying the bottlenecks and formulating innovative reforms to make that segment competitive but also active intervention from the government time and again to ensure effective implementation of the various measures.



Decide with Confidence

Dun &amp; Bradstreet

## Economy Outlook 2010-11



## Appendix

## D&amp;B Forecast for FY11

Variables	2008-09	2009-10 (F)	2010-11 (F)
Real GDP Growth (%)	6.7	6.9	8.3
Agriculture	1.6	-0.5	3.1
Industry	3.9	8.8	10.0
Services	9.8	7.9	8.7
IIP (Growth Rate %)	2.8	10.2	10.3
Private Fixed Consumption Expenditure (PFCE) (Growth Rate %)	6.8	4.5	7.5
Savings Rate (% of GDP)	32.5	34.5	34.8
Investment Rate (% of GDP)	34.9	36.5	37.3
WPI- All Commodities (Growth Rate %)	8.4	3.8	7.0
WPI-Manufacturing (Growth Rate %)	8.2	3.2	6.8
CPI-IW (Growth Rate %)	9.1	12.1	9.9
PLR (%)*	11.50-12.50	11.00-12.00	12.50-13.50
15-91 days' Treasury Bill (yield)*	4.55	4.50	5.07
10 Year G-Sec (yield)*	7.04	8.00	8.30
M3 (growth Rate %)*	18.57	16.5	17.5
Bank Credit (Growth Rate %)*	17.51	16.5	20.0
Exchange Rate (USD/INR)*	50.95	45.7	44.5
Exports (US \$ Bn)	185.3	163.2	195.6
Exports (Y-O-Y Growth)	13.7	-11.9	19.9
Imports (US \$ Bn)	303.7	260.6	338.8
Imports (Y-O-Y Growth)	20.8	-14.2	30.0
Trade Balance (US \$ Bn)	-118.4	-97.5	-143.2
Current Account Balance (% of GDP)	-2.4	-2.0	-2.5
Fiscal Deficit (% of GDP)	6.0	6.7	6.0

F : D&amp;B forecasts

Note: \* Data pertains to end period

## Resultant Optimism for Manufacturing Sectors (%)

Sectors	Volume of Sales	New Order	Profit Expectations	Selling Prices	Number of employees	Capital Spending
Auto Components	90	88	61	48	72	66
Automobiles	96	96	73	62	77	69
Capital Goods	80	88	64	48	60	63
Cement	88	94	80	64	38	40
Steel	90	88	79	60	44	71
Textiles	87	84	79	63	35	43



**Decide with Confidence**

**Dun & Bradstreet Information Services India Pvt. Ltd.**

ICC Chambers II, 2<sup>nd</sup> Floor, Near Saki Vihar Telephone Exchange, Saki Vihar Road, Powai, Mumbai - 400 072.

Tel: +91 22 6680 1300 Fax: +91 22 2847 6282 Email: [d&beconomyoutlook@mail.dnb.co.in](mailto:d&beconomyoutlook@mail.dnb.co.in)

**DISCLAIMER:**

This Report is strictly for private circulation to the addressees only and not for re-circulation. Any form of circulation, replication, reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of this Report or contents hereof, including by caching, framing or similar means, is strictly prohibited without the prior written consent of Dun & Bradstreet Information Services India Pvt. Ltd. (D&B). The contents of this Report are solely meant to inform. The information contained in this Report should be independently verified before placing reliance or taking any decision on the basis of the information. D&B expressly disclaim all responsibility and accept no liability for the consequences of any person acting, or refraining from acting, on such information. **Copyright © 2009, D&B, All rights reserved.**