

Business Optimism Index stands at **78**

Optimism for net profits



is at an 11-quarter high

39% of the respondents expect an increase in their inventory level
Highest in 15 quarters



Optimism for new orders and workforce size remains flat



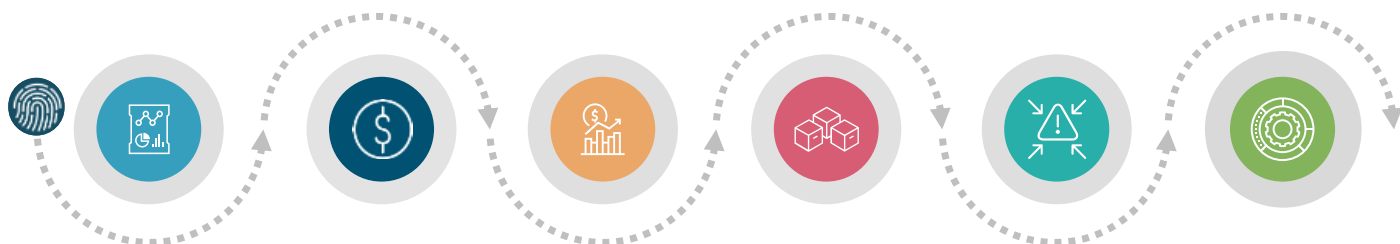
Capital goods sector is the least optimistic on volume of **Sales**, new orders, net profits and workforce size



Key Macro Highlights

- Bank credit to industries increased by 5.6% in Feb 19, highest since Feb 16.
- The BSE SENSEX crossed 39,000 on Apr 1, 2019, for the first time. Net FII inflows increased to US\$ 7.9 bn in Q4 FY19, highest in 7 quarters.
- The average value of rupee stood at 69.48 per US\$ in Mar 19, highest since Aug 18.
- Trade deficit narrowed to US\$ 9.6 bn in Feb 19, a 17-month low.
- RBI injects rupee liquidity through the US\$ 5 bn currency swap.
- RBI announces increase in borrowing limit of importers from overseas and eases borrowing cost.
- In Q3 FY19, GVA rose by 6.3% and GDP rose by 6.6% (y-o-y basis), both lowest in 6 quarters.
- In Q3 FY19, agriculture sector rose by 2.7%, an 11-quarter low, and manufacturing sector clocked 6.7%, a six-quarter low.
- El Nino conditions strengthened in Feb 2019.
- Brent crude oil price nears US\$ 70 (as on Apr 01, 2019), highest in 5 months.
- Retail auto sales declined across all segments in Feb 19, 3rd straight month of contraction.

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D&B Optimism Index for India for Q2 2019

The survey for Dun & Bradstreet Business Optimism Index for Q2 2019 was conducted during the month of March 2019, when some of the positive developments led to a modest recovery in the optimism levels amongst companies. Expectations over increase in sales and net profits led to the increase in the optimism levels of the corporates. Optimism over selling prices has also increased which indicates that corporates are likely to increase the selling price given low inflation levels in most of the commodities. The optimism levels, nonetheless, remains subdued when compared to last year owing to the base effect along with the fact that uncertainty levels remained high during March 2019 due to the general election and cross border tension.

During March 2019, both the debt and the stock market witnessed a steady inflow of foreign investments, depreciation pressures over rupee abated and forex reserves increased leading to an increase in import cover to close to 11 months in Feb 2019. Major Central Banks across countries have entered into a monetary easing mode and indicated extending the existing liquidity support. This will be a positive for the Indian markets and India Inc. Given the fact that FII outflows during Jan-Dec 2018 was at an all-time high, RBI announced Voluntary Retention Route (VRR) scheme to encourage Foreign Portfolio Investors to undertake long-term investments (min retention period is 3 years) in Indian debt markets.

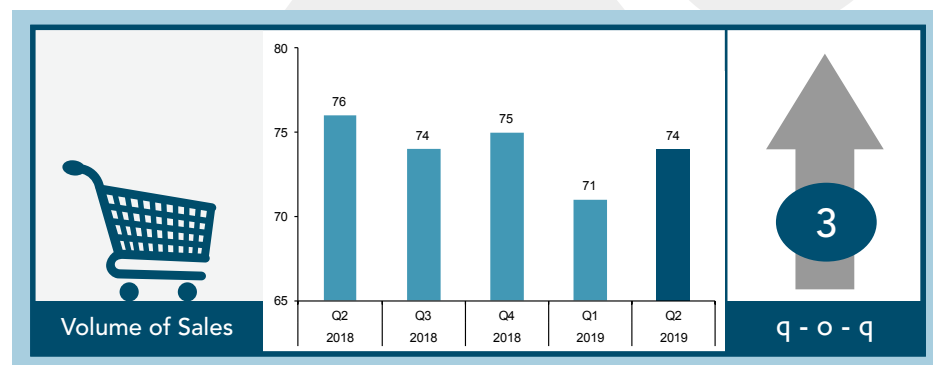
Given the muted credit flows and constraints in the banking system over liquidity and high provisioning norms, the RBI has been taking additional measures to improve flow of funds to the commercial sector such as the injection of rupee liquidity through the US\$ 5 billion currency swap for a tenor of three years. For importers, of both capital and non-capital goods, the RBI has raised the limit of borrowing from overseas and has also

reduced the cost of borrowing. This is a positive for the trading community. After witnessing the lowest profitability in the last 15 years in FY18, corporate profitability has been increasing through the first three quarters of FY18 and it is expected to continue during the 4th quarter led by the growth in the consumption oriented sectors (election related spending), pharma (launch of new U.S. generics and specialty products) and banks (growth in certain banks on the back of lower loan-loss provisions). These might have also helped in uplifting the optimism levels.

Compared to last year, optimism levels remained subdued mired by the release of the six quarter low Q3 FY19 GDP data, distress in the rural sector, strengthening of El Niño conditions, de-growth in auto sales across all segments, financial difficulties in one of the major private sector airlines and surge in the oil prices. Eight core industries registered a 19th month low growth (Jan 19) while industrial production weakened over poor performance in the manufacturing and electricity sector. Risks from the external sector has also heightened given the slowdown in the momentum of global growth amidst headwinds from weak global manufacturing activity, slowing global trade and growing political uncertainty.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q2 2019 increased by 6.3% over the preceding quarter. On a y-o-y basis, the index registered a decline of 7.7%. Based on the responses received, on a q-o-q basis it was observed that four out of the six optimism indices have increased while the other two have remained unchanged. Amongst the sectors, intermediate goods sector is the most optimistic on net profits, the services and construction sectors are the most optimistic on volume of sales, while the capital goods sector is the least optimistic on volume of sales, new orders, net profits and on total employee levels.

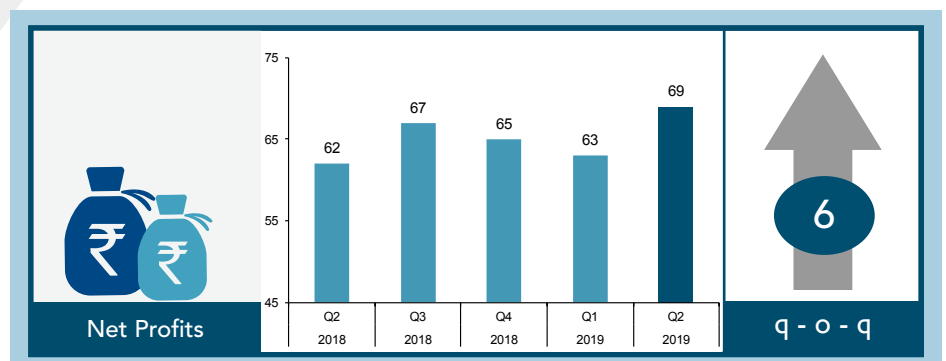
Optimism on Sub-indices



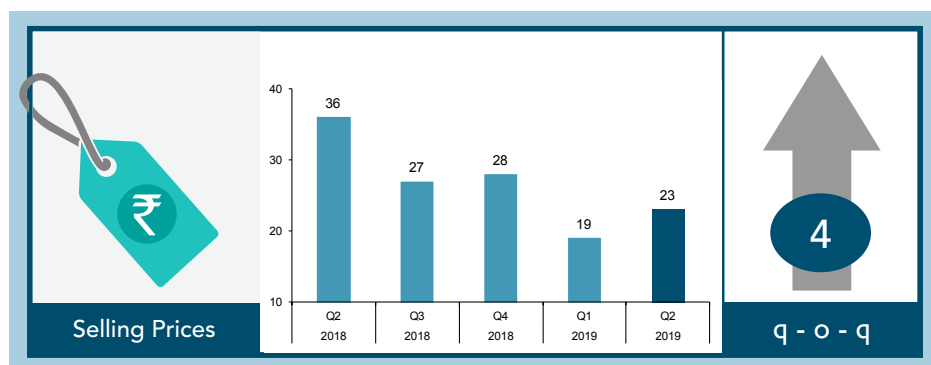
Note: All q-o-q figures are in percentage points

74% of the respondents expect volume of sales to increase in Q2 2019 compared to 71% in Q1 2019, an increase of 3 percentage points. While 18% expect it to remain unchanged, 8% expect the volume of sales to decline. The services goods and construction sector are the most optimistic, while the capital goods sector is the least optimistic on this parameter.

69% of the respondents expect an increase in net profits in Q2 2019, compared to 63% in Q1 2019, an increase of 6 percentage points. 23% expect net profits to remain unchanged, while 8% expect it to decrease. The intermediate goods sector is the most optimistic, while the capital goods sector is the least optimistic on this parameter.



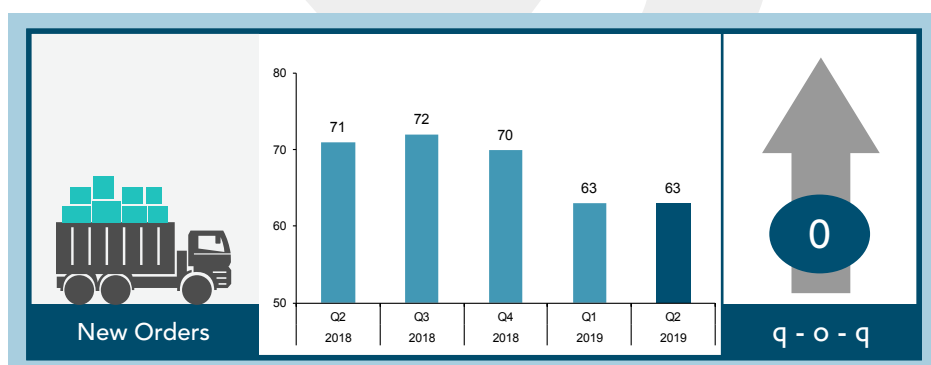
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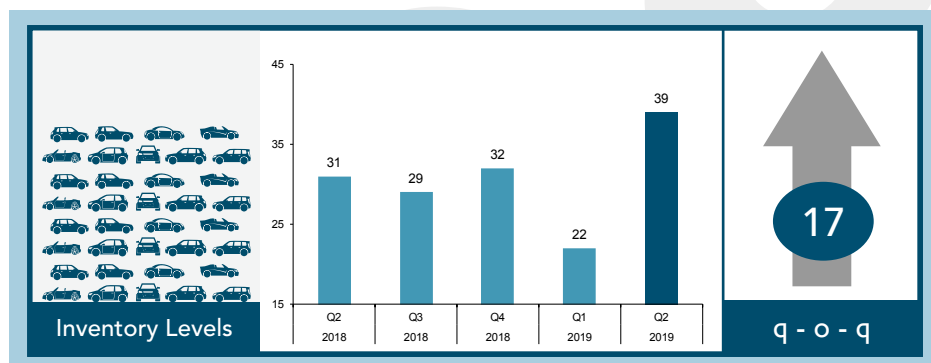
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70% of the respondents expect no change in the selling price of their products for Q2 2019. 23% of the respondents expect the selling price of their products to increase during Q2 2019, while 7% expect a decline. The basic goods sector is the most optimistic on this parameter, while the construction sector is the least optimistic.

63% of the respondents expect their order book position to improve in Q2 2019, the same level as in Q1 2019. While 29% of the respondents expect new orders to remain unchanged, 8% anticipate new orders to decrease. The consumer durable goods sector is the most optimistic, while the capital goods and consumer non-durable goods sector are the least optimistic.



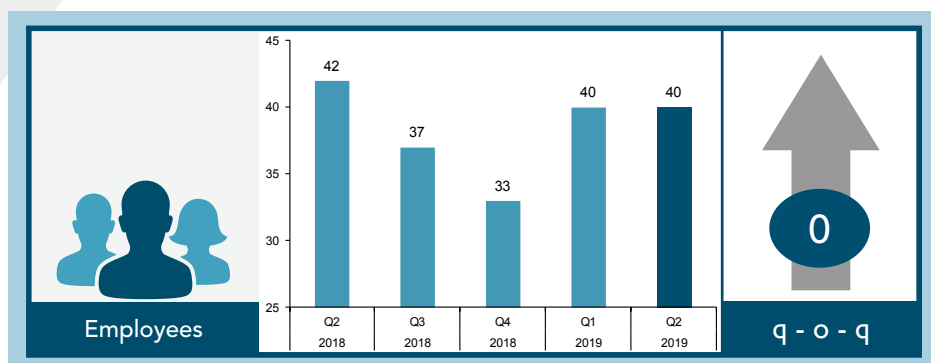
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39% of the respondents expect their inventory level to increase during Q2 2019, as compared to 22% in Q1 2019. While 48% anticipate no change in inventory level, 13% expect inventory level to decline. The intermediate goods sector is the most optimistic on this parameter.

40% of the respondents expect an increase in the size of their workforce employed during Q2 2019, the same level as in Q1 2019. While 53% anticipate no change in the number of employees, the remaining 7% expect their workforce size to decline. The services sector is the most optimistic on this parameter.



Note: All q-o-q figures are in percentage points

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The D&B Optimism Index is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. Over time, this index has emerged as a leading indicator of turning points in economic activity.

Methodology

For the purpose of conducting the survey, a sample of companies belonging to basic goods, capital goods, intermediate goods, consumer durables, consumer nondurables, construction and the services sectors is selected at random from Dun & Bradstreet's commercial credit information file. The sample selected is a microcosmic representation of India's business community. All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders Inventories and Employees. The individual indices are then calculated by the percentage of respondents expecting an increase.

Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index from Q4 2002. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the individual indices except inventory. Each of the five parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of five parameters for the period under review are expressed as a proportion of positive responses in the revised base period (2011). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. We trust that you will find the D&B Optimism Index as a useful tool in your day-to-day decision making. Please do give us your feedback in this regard.

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CIN : U74140MH1997PTC107813

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