

Key Macro Highlights

- 👍 GDP grew by 1.6% (y-o-y) during Q4 FY21 backed by strong government final consumption expenditure and gross fixed capital formation which grew by 10.9% (y-o-y) and 28.3% (y-o-y) respectively
- 👍 Foreign exchange reserves stood at US\$ 611 bn as on 9th Jul 21, highest ever. Import cover stood at 7 months in Jun 21 up from 6.4 months during May 21
- 👍 Bank credit to industries continued to grow for three-straight months and stood at 0.8% (y-o-y) in May 21
- 👍 Index of Industrial Production (IIP) grew by 29.3% (y-o-y) in May 21, on the back of strong production in mining (23.3%) and manufacturing (34.5%)
- 👎 Global Brent crude oil prices rose to US\$ 73.2 per barrel in Jun 21, highest since Nov 18
- 👎 CPI inflation grew by 6.3% (y-o-y) in Jun 21, remaining above the RBI inflation tolerance band for two-straight months driven by inflation in food and services
- 👎 10-yr G-Sec yield hardened to 6.3% in Jun 21, higher than 5.9% observed in Jun 20
- 👎 After remaining above the monthly target for 8-straight months, GST revenue collection fell during Jun 21 and stood at Rs 0.93 tn



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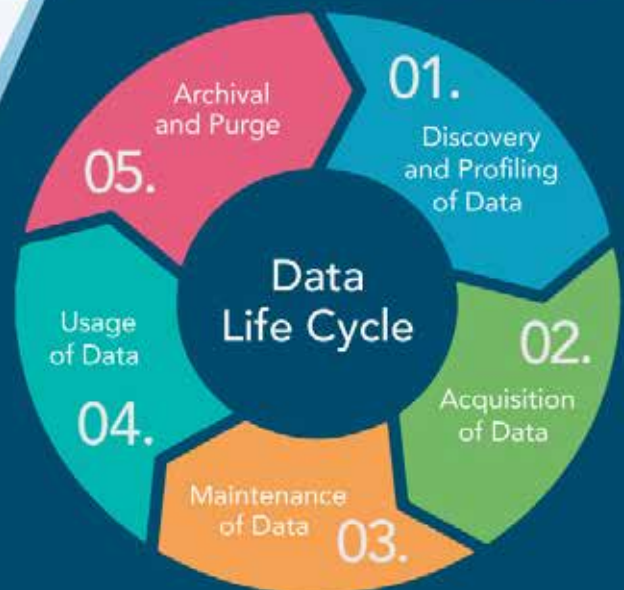
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D&B Optimism Index for India for Q3 2021

The survey for Business Optimism Index (BOI) was conducted during the month of June when the 2nd wave was abating and restrictions were gradually withdrawn, the positivity rate came below 5% which indicated that the epidemic was under control and the vaccination drive accelerated. With the fall in cases, business activity had picked up in June 2021. The RBI and the government also announced support measures to help firms cope up with the predicament imposed by the 2nd wave. This might have supported the revival in the optimism level of businesses for Q3 2021 from the previous quarter. The revival in optimism is however led by the large firms while optimism of small firms across all six parameters surveyed lagged behind both the medium and large firms.

The pickup in business activity is indicated by our COVID-19 Commerce Disruption Tracker which showed that around 32% of businesses in India were disrupted by 3rd week of June 2021, from close to 50% of businesses that were disrupted in the 3rd week of May 2021. To ensure the logistics sector operate with minimum disruptions, the government had set up a control room to monitor issues related to internal trade, manufacturing, delivery and logistics of essential commodities during the COVID-19. Support provided to meet the credit needs of the MSMEs and the sectors affected by COVID-19 in the month of June will help businesses to wade through the losses caused by the various restrictions imposed to flatten the curve.

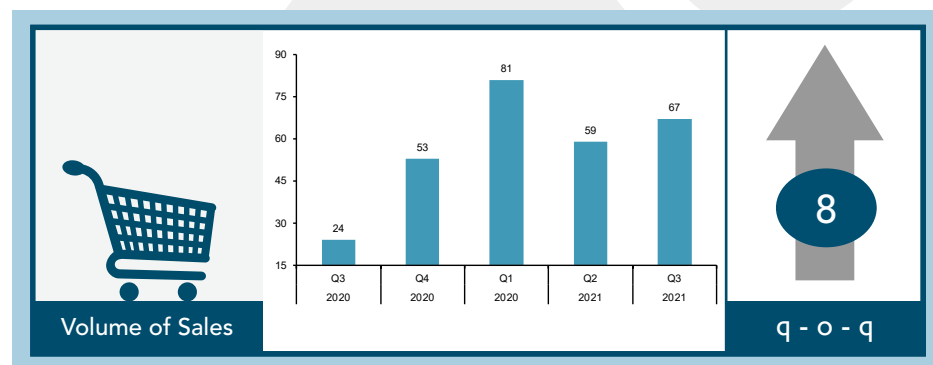
The optimism index, however, remains below the level witnessed during the first quarter of the year. Amongst the sub-indices, the optimism for volume of sales, new order and net profit although improved from previous quarter remains below the level witnessed for Q1 2021. For example, 81% of firms expected net sales to increase during Q1 2021 while 67% of them expect it to increase during Q3 2021. The large firms were the most optimistic about the pickup in demand with 3 out of 4 firms stating net sales to increase during Q3 2021. Given the high

correlation between the business optimism levels and the GDP growth, recovery in growth is thus expected to remain tepid in Q3 2021 and will lack the momentum witnessed at the starting of the year. Sector-wise, the construction sector is the most optimistic about the reinforcement in demand with 90% stating volume of sales to increase. Favorably, the turnaround in the optimism level of firms is likely to boost the employment levels. After remaining subdued since Q3 2020, optimism for hiring has increased to a six quarter high in Q3 2021, with close to 50% of large scale enterprises being optimistic about increasing their employee size.

High input price pressures driven by pandemic related demand-supply imbalances and rising freight costs is expected to weigh on profits or raise final prices. While firms in the consumer non-durables sector are the most optimistic about increasing the selling price of goods, optimism about selling price is very low amongst firms in the basic goods sector. However, overall optimism around selling price is the highest since Q2 2018.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q3 2021 increased by 21% on a q-o-q basis. Based on the responses received, on a q-o-q basis, five out of the six optimism indices have increased. Amongst the sectors, construction sector is the most optimistic on volume of sales, net profit and hiring of employees, while consumer non-durables sector is the most optimistic on level of selling price and new orders and basic goods is the least optimistic on all parameters.

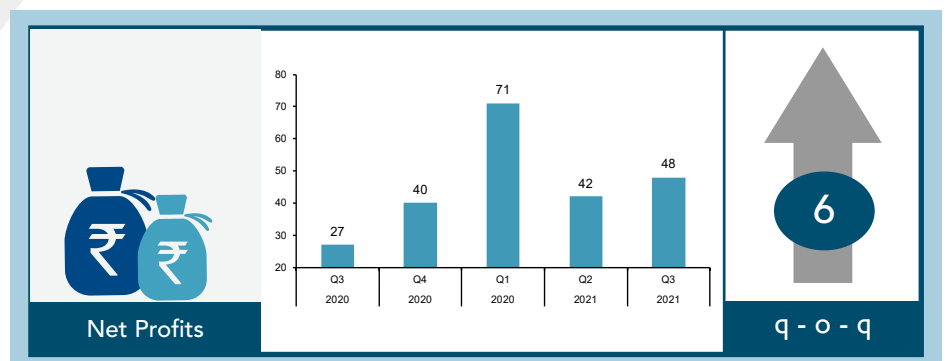
Optimism on Sub-indices



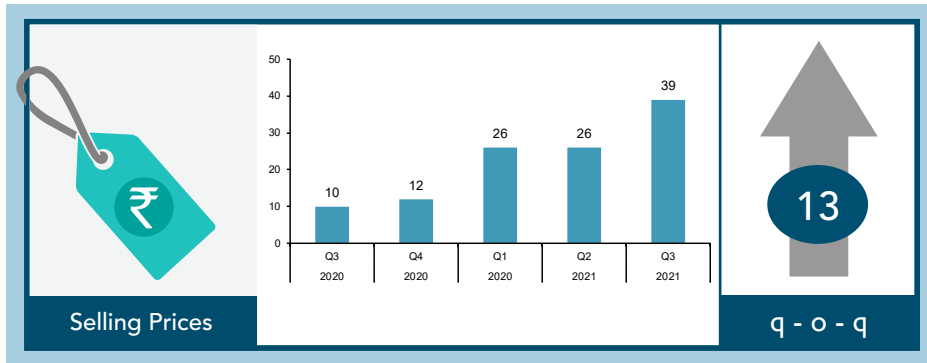
Note: All q-o-q figures are in percentage points

67% of the respondents expect volume of sales to increase in Q3 2021 compared to 59% in Q2 2021, an increase of 8 percentage points. While 19% expect it to remain unchanged, 14% expect the volume of sales to decline. The construction sector is the most optimistic, while the basic goods sector is the least optimistic on this parameter.

48% of the respondents expect an increase in net profits in Q3 2021, compared to 42% in Q2 2021, an increase of 6 percentage points. 33% expect net profits to remain unchanged, while around 19% expect it to decrease. The construction sector is the most optimistic, while the basic goods sector is the least optimistic on this parameter.



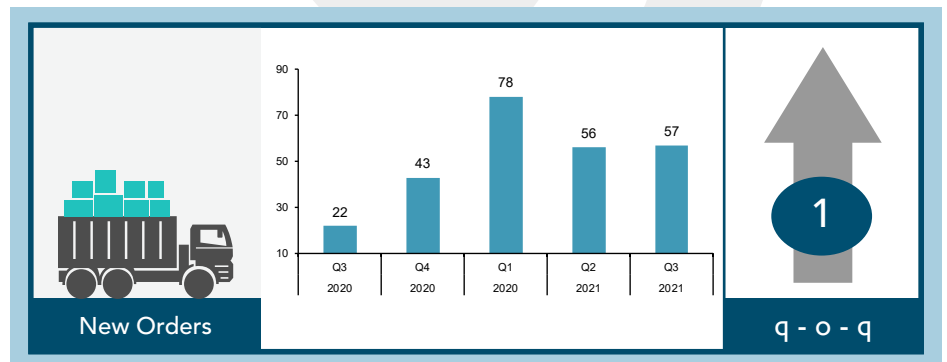
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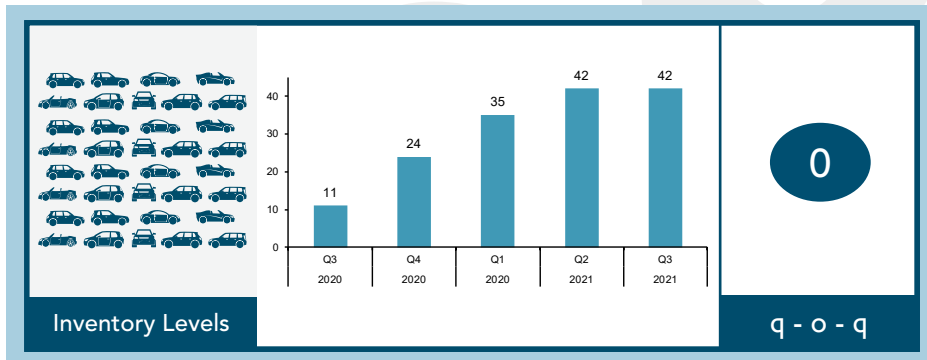
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48% of the respondents expect no change in the selling price of their products in Q3 2021. 39% of the respondents expect the selling price of their products to increase during Q3 2021, while 13% expect a decline. The consumer non-durable goods sector is the most optimistic on this parameter, while the basic goods sector is the least optimistic.

Around 57% of the respondents expect their order book position to improve in Q3 2021, compared to 56% in Q2 2021, increase of only a percentage point. While around 23% of the respondents expect new orders to remain unchanged, around 20% anticipate new orders to decrease. The consumer non-durable goods sector is the most optimistic, while the basic goods sector is the least optimistic.



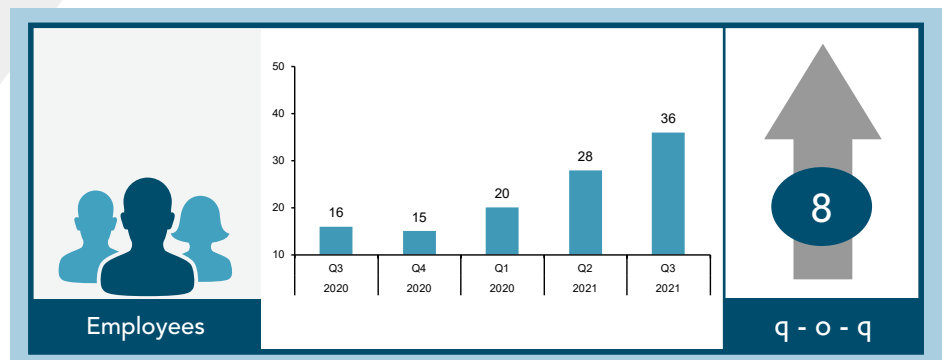
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42% of the respondents expect their inventory level to increase during Q3 2021, no change from the levels seen in Q2 2021. While another 42% anticipate no change in inventory level, 16% expect inventory level to decline. The intermediate goods sector is the most optimistic on this parameter.

36% of the respondents expect an increase in the size of their workforce employed during Q3 2021 compared to 28% in Q2 2021, an increase of 8 percentage points. While 57% anticipate no change in the number of employees, 7% expect their workforce size to decline. The construction 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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