



Key Macro Highlights

- 👍 The RBI decided to allow scheduled commercial banks to deduct the equivalent of incremental credit disbursed (up to the fortnight ending July 31, 2020) by them as retail loans for automobiles, residential housing and loans to MSMEs from their net demand and time liabilities for maintenance of cash reserve ratio.
- 👍 Core rural inflation increased to 3.8% in Jan 20, a 4-month high
- 👍 Global Brent crude oil price fell to US\$ 53.4 per barrel on Feb 10, 2020 – lowest since Jan 04, 2019.
- 👍 Foreign exchange reserves stood at US\$ 473 bn as on Feb 07, 2020 – highest ever

- 👎 Capacity Utilisation declined to 69.1% in Q2 FY20, lowest since the start of RBI's survey in Q1 FY09.
- 👎 The Index of Industrial Production (IIP) declined by 0.3% in Dec 19 as compared to a growth of 2.5% in Dec 18.
- 👎 Retail inflation increased to 7.6% in Jan 20, highest since Jun 14.
- 👎 Bank credit grew by 8.0% in Jan 20 as compared to 14.8% in Jan 19.

D&B Optimism Index for India for Q1 2020

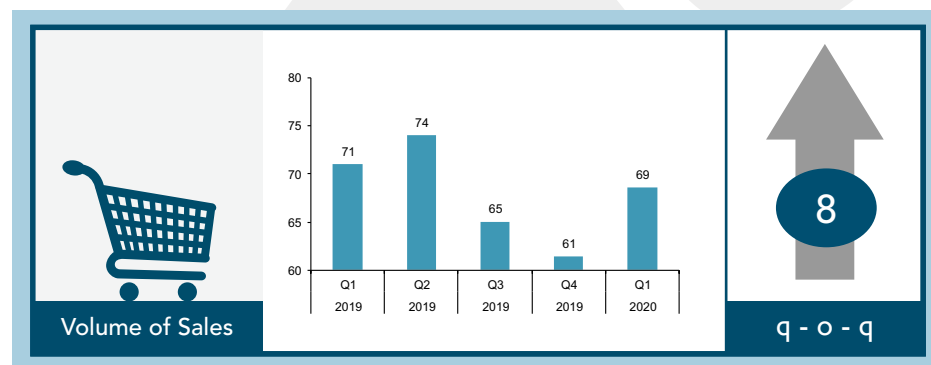
The survey for Dun & Bradstreet Business Optimism Index for Q1 2020 was conducted during the month of Dec 2019 – Jan 2020 when tentative signs of recovery were visible in some of the economic indicators. Interestingly, of all the parameters, the recovery is observed more strongly in the optimism level of India Inc.

Reflecting the improving sentiment of businesses, the D&B Business Optimism Index (D&B BOI) registered an eight-quarter high growth during the quarter of Jan-Mar 2020. The D&B BOI covers six broad sub-indices, out of which the indices for net sales and net profit stood at a three-quarter high, respectively. Since the D&B BOI mirrors the GDP growth up to 80% with a lead of almost 6 months, it can be considered as a leading indicator for growth. The other set of indicators which show some positive signs amidst the gloom and doom projected by various institutions and organizations are: Quarterly data on domestic passengers handled by airports and investment projects completed, which have shown a higher growth rate during the period of Oct-Dec 2019 compared to the previous quarter of July-Sep 2019. During the same period under comparison, the pace of contraction has declined, for several other indicators such as exports, sales of automobiles, passenger traffic on Indian railways and rail freight. Moreover, there has been no slowdown in the credit card spending either in the volume or in the value indicating stable urban demand, especially amongst the higher income category. However, only a sustained growth in the indicators can strongly confirm the process of recovery. Further, alleviation of input cost pressures owing to the sustained fall in global oil prices during part of the survey period along with the fall in global commodity prices of major commodities such as energy, base metals and fertilizers etc. might have added to the optimism levels. Various measures taken by the Government and the RBI might have contributed to the rise in the optimism levels. Several stimulus

measures have been announced by the government during 2019 including the reduction in the corporate tax which could have uplifted the optimism levels of India Inc. The cabinet's approval to further amend the Insolvency and Bankruptcy Code (IBC) in Jan 2020, under which there would be no liability on a corporate debtor for an offence committed prior to commencement of the insolvency resolution process was a relief to the corporate sector. Expectations were high from the Union Budget of 2020-21 and the government had tried to cater to the need by announcing a series of initiatives for the agriculture sector to Industry 4.0. Series of measures were also taken by the RBI to support flow of credit to the productive sectors of the economy. However, there are some serious concerns which could delay the start of recovery process. The outbreak of Coronavirus, through the direct and indirect linkages of trade and commerce and global supply chain, could impact Indian companies. Manufacturing companies could face production disruptions if the length of the outbreak gets prolonged and their supply chain is not restored to normalcy. The other area of concern is the increase in inflationary pressures, at least in the short term, through the channels of uncertainty and disruption in the supply chain. High inflationary situation could dent the tentative economic recovery that is taking place. The impact on the sentiment of India Inc. caused by the outbreak of Coronavirus was not captured by the survey as this survey conducted before the outbreak.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q1 2020 increased by 11.7% over the preceding quarter. On a y-o-y basis, the index registered a decline of 14.6%. Based on the responses received, on a q-o-q basis it was observed that three out of the six optimism indices have increased. Amongst the sectors, consumer durables sector is the most optimistic on net profits and the construction sector is the least optimistic on net profits, level of selling price and total number of employees.

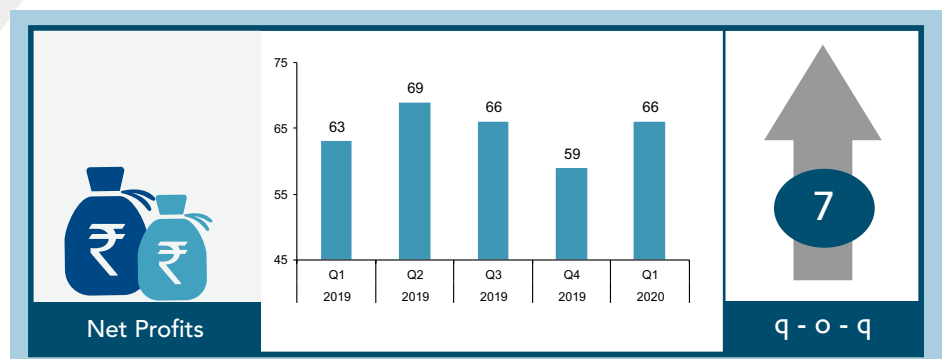
Optimism on Sub-indices



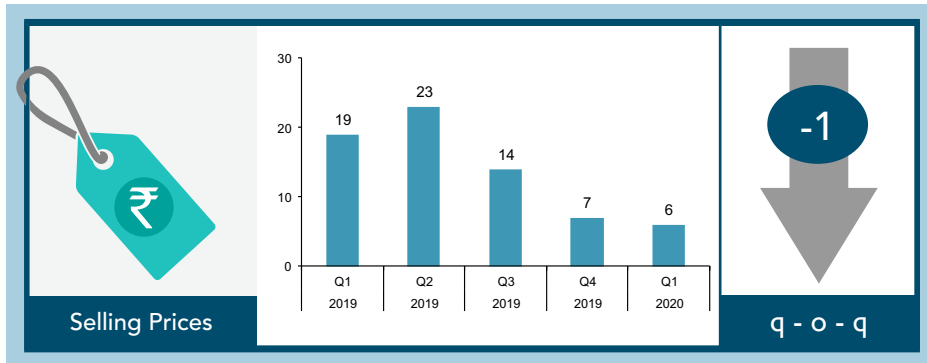
Note: All q-o-q figures are in percentage points

Around 69% of the respondents expect volume of sales to increase in Q1 2020 compared to 61% in Q4 2019, an increase of 8 percentage points. While around 25% expect it to remain unchanged, around 6% expect the volume of sales to decline. The construction sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.

66% of the respondents expect an increase in net profits in Q1 2020, compared to 59% in Q4 2019, an increase of 7 percentage points. 25% expect net profits to remain unchanged, while 9% expect it to decrease. The consumer durable goods sector is the most optimistic, while the construction sector is the least optimistic on this parameter.



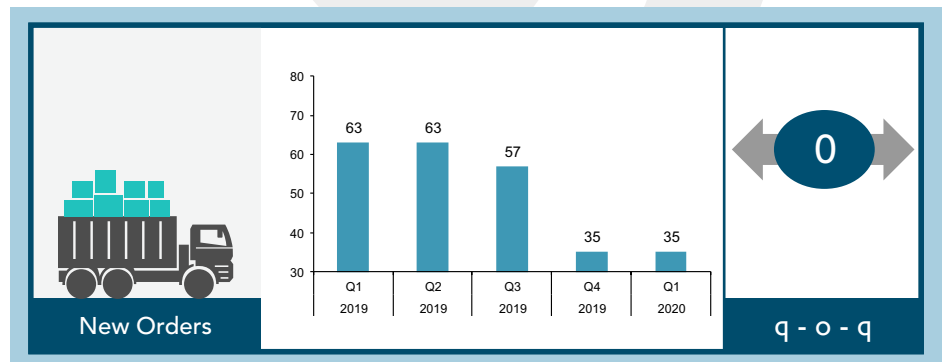
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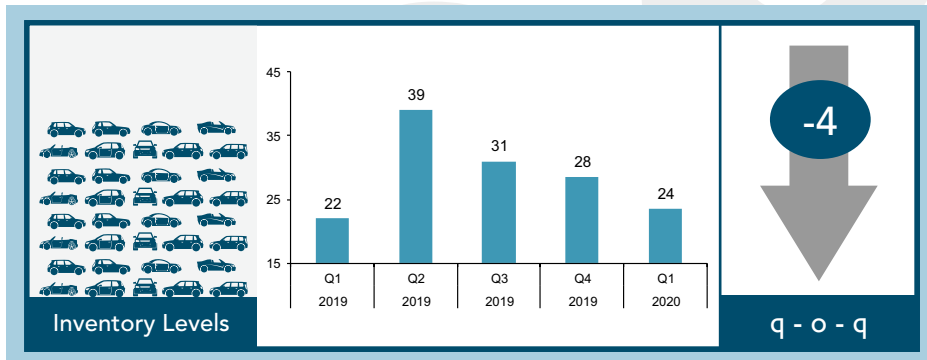
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89% of the respondents expect no change in the selling price of their products for Q1 2020. 6% of the respondents expect the selling price of their products to increase during Q1 2020, while 5% expect a decline. The capital goods sector is the most optimistic on this parameter, while the construction sector is the least optimistic.

35% of the respondents expect their order book position to improve in Q1 2020, the same level as in Q4 2019. While 58% of the respondents expect new orders to remain unchanged, 7% anticipate new orders to decrease. The intermediate goods sector is the most optimistic, while the consumer durable goods sector is the least optimistic.



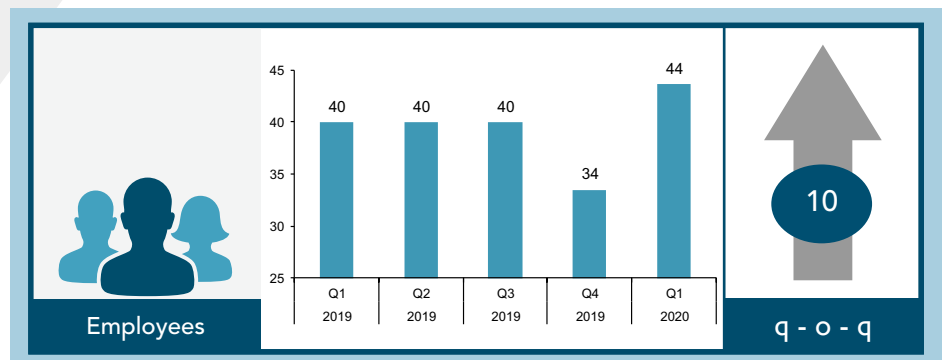
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Around 24% of the respondents expect their inventory level to increase during Q1 2020, as compared to 28% in Q4 2019. While around 65% anticipate no change in inventory level, around 11% expect inventory level to decline. The capital goods sector is the most optimistic on this parameter.

Around 44% of the respondents expect an increase in the size of their workforce employed during Q1 2020 compared to 34% in Q4 2019, an increase of 10 percentage points. While around 49% anticipate no change in the number of employees, around 7% expect their workforce size to decline. The services sector is the most optimistic on this parameter.



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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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