

Optimism for **net profit** has **declined by 4 percentage points** compared to the average of previous 4 quarters

Respondents who expect **increase in inventory** is the **highest in six years**

Capital goods sector is the **most optimistic** on volume of sales, new orders, net profit and inventory level

Consumer durable goods sector is the **least optimistic** on new orders and increase in size of workforce

Key Macro Highlights

- Revenue collections from GST recorded the highest collection in Apr 2021 and stood at Rs 1.4 tn
- Exports of passenger vehicles increased to 12.5% (m-o-m) during Mar 21 compared to a contraction of 4.2% (m-o-m) in Feb 21
- Pace of contraction in bank credit to industries declined to 0.24% (y-o-y) in Feb 21 compared to a contraction of 1.3% (y-o-y) during Jan 21
- Foreign exchange reserves increased to US\$ 579 bn during Mar 21 from US\$ 475 bn in Mar 20 and thus import cover increased from 6.6 months in Mar 20 to 8.4 months during Mar 21

- Cumulative positivity rate of COVID-19 cases increased to 20% as on 29th Apr 2021 from 1.6% as on 1st Mar 2021
- Wholesale inflation increased by 7.4% (y-o-y) in Mar 21, highest in the new series 2011-12
- Rupee has depreciated to Rs 74.5 per US\$ in Apr 21 as against Rs 72.8 per US\$ during Mar 21
- Net FII outflows stood at US\$ (-) 1.2 bn in Apr 21 compared to an inflow of US\$ 2.3 bn in Mar 21

D&B Optimism Index for India for Q2 2021

The survey for Business Optimism Index (BOI) was conducted over the period from 2nd half of March to the 1st half of April 2021. The survey revealed that the overall optimism level for Q2 2021 had declined by 23% from the last quarter, but businesses remained optimistic across many parameters compared to last year when the nation-wide lockdown had brought all activities to a near halt. We believe that the optimism levels of Indian Inc. has been higher compared to last year as businesses are likely to have learnt to adopt to the new normal and the proliferation of digitization is supporting the business continuity.

Bifurcating the responses in both the phases, the survey found that there was a buoyancy in the optimism level amongst business in March 2021 driven by the re-opening of all activities and return to workplace, both for blue collared employees and migrant labours. Various economic indicators such as the Goods and Services Tax (GST) collections, which rose to an all-time high in March 2021, indicated the uptick in consumer demand and higher transactions conducted by businesses.

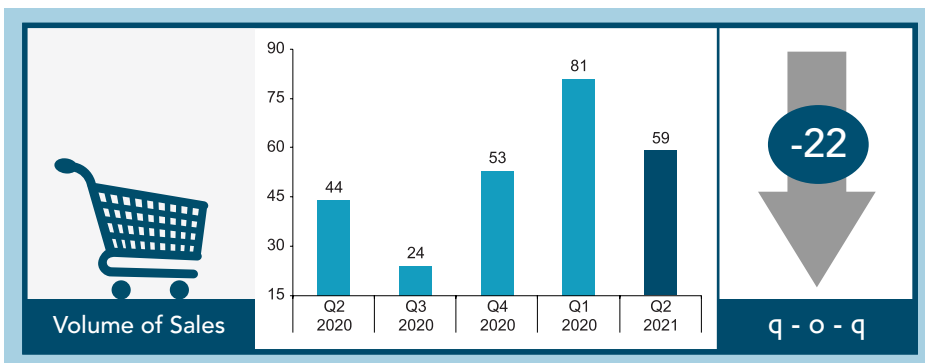
However, the optimism levels waned in the month of April 2021 as stronger than expected 2nd wave impacted India severely. Though the government is unwilling to call for a nation-wide lockdown, the growing localized restrictions have imparted heightened uncertainty reflected in the sharp decline in the optimism levels of businesses in the month of April.

While the night curfew or weekend lockdowns have not yet disrupted the manufacturing sector supply chains, the record number of daily cases and the crumbling health infrastructure is affecting the consumer sentiment and in turn the various

industries and the high contact services sector. The consumer goods sector appears to have been most impacted. In the consumer non-durables sector, 3 in 10 companies expect new order to improve during Q2 2021 compared to 9 in 10 companies in Q1 2021. The consumer durables sector also indicated the least optimism levels in terms of new orders and hiring employees during the quarter compared to other sectors. The industry body of the Hotels & Restaurant sector reported that the high contact services sector which had hardly recuperated from the last year's lockdown is facing dire consequences from the night curfews imposed across the country. The pandemic has already led to permanent closure of 30% of the hotels and restaurants in the country, 20% have not been able to reopen after the lockdown ended while the remaining continue to operate under losses. However, the survey showed that sectors like capital goods and construction sector have not yet felt the impact; around 88% and 76% of the surveyed firms expect new order to improve during Q2 2021. Nonetheless, since cases remain extremely high, further tighter and wider-ranging restrictions look highly likely which will impact the business optimism levels warranting support measures from the government.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q2 2021 decreased by 23% on a q-o-q basis. Based on the responses received, on a q-o-q basis it was observed that three of the six optimism indices have decreased. Amongst the sectors, capital goods sector is the most optimistic on volume of sales, new orders, net profit and consumer durable goods sector is the least optimistic on new orders and increase in size of workforce.

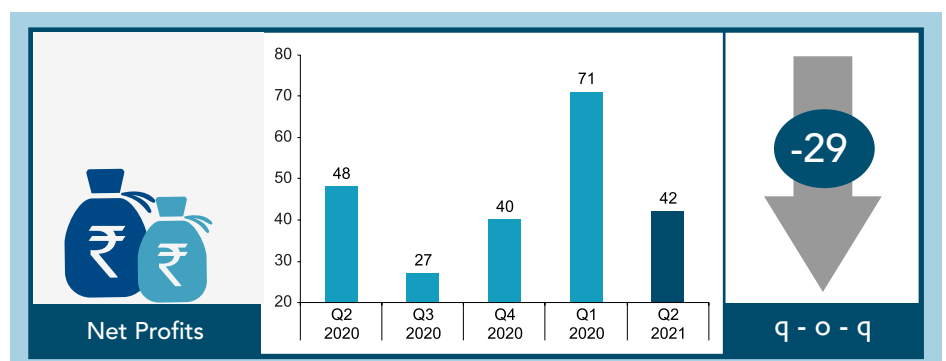
Optimism on Sub-indices



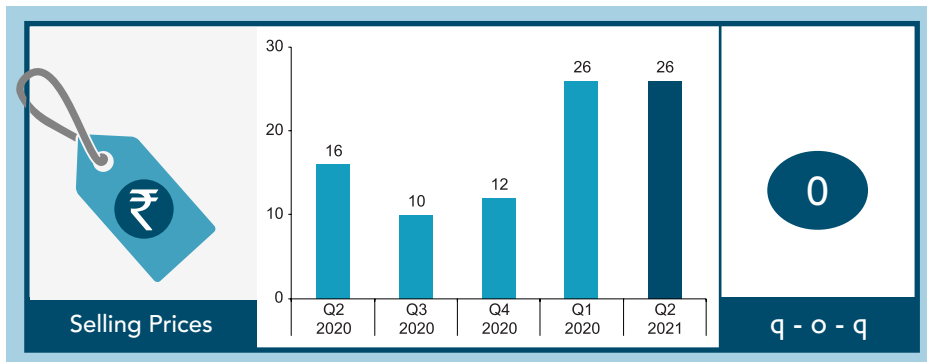
Note: All q-o-q figures are in percentage points

59% of the respondents expect volume of sales to increase in Q2 2021 compared to 81% in Q1 2021, a decrease of 22 percentage points. While 21% expect it to remain unchanged, 20% expect the volume of sales to decline. The capital goods sector is the most optimistic, while the consumer non-durable goods sector is the least optimistic on this parameter.

Around 42% of the respondents expect an increase in net profits in Q2 2021, compared to 71% in Q1 2021, a decrease of 29 percentage points. Around 27% expect net profits to remain unchanged, while around 32% expect it to decrease. The capital goods sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.



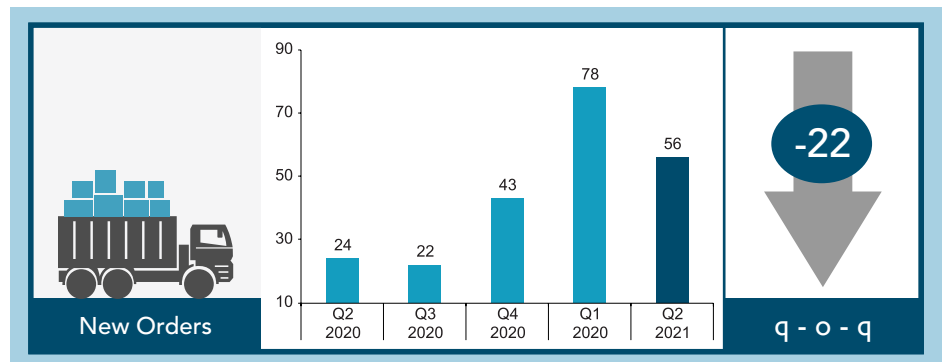
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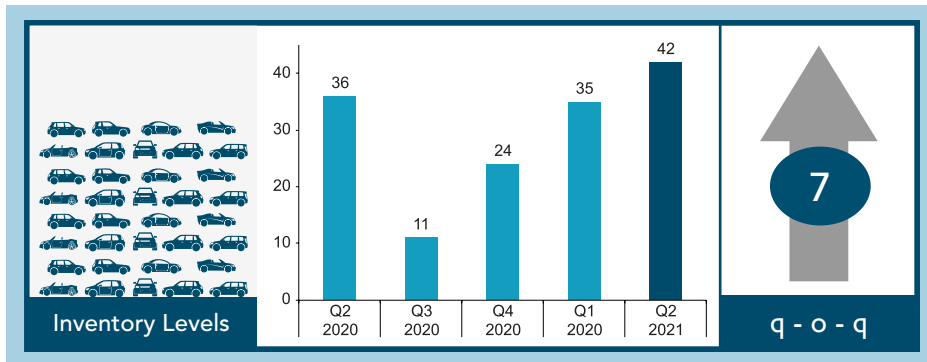
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59% of the respondents expect no change in the selling price of their products in Q2 2021. 26% of the respondents expect the selling price of their products to increase during Q2 2021, while 16% expect a decline. The consumer durable goods sector is the most optimistic on this parameter, while the consumer non-durables goods sector is the least optimistic.

56% of the respondents expect their order book position to improve in Q2 2021, compared to 78% in Q1 2021, a decrease of 22 percentage points. While 27% of the respondents expect new orders to remain unchanged, 17% anticipate new orders to decrease. The capital goods sector is the most optimistic, while the consumer durable goods sector is the least optimistic.



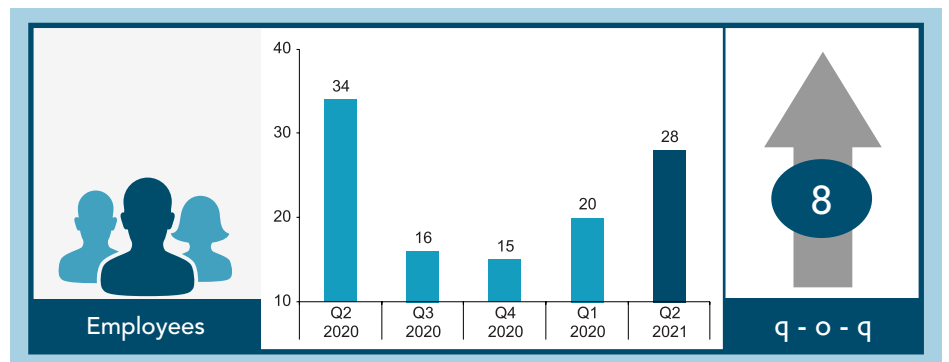
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42% of the respondents expect their inventory level to increase during Q2 2021, as compared to 35% in Q1 2021. While 39% anticipate no change in inventory level, 19% expect inventory level to decline. The capital goods sector is the most optimistic on this parameter.

28% of the respondents expect an increase in the size of their workforce employed during Q2 2021 compared to 20% in Q1 2021, an increase of 8 percentage points. While 57% anticipate no change in the number of employees, 15% 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

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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