



Business Optimism Index

Q2 2006

Dun & Bradstreet is pleased to send you the latest *D&B Optimism Index* for India. It is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The *D&B Optimism Index* is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity.

Methodology

For the purpose of conducting the survey, a sample is selected randomly from Dun & Bradstreet's commercial credit information file. The sample selected for the survey includes companies belonging to basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the service sector. In short, 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:

1. Net sales
2. Net profits
3. Selling prices
4. New orders
5. Inventories
6. Employees

The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting

increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

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 six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). 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. The D&B Optimism Index has been widely appreciated by business decision makers. We trust that you too will find it a useful tool in your day-to-day decision-making. Please do give us your feedback in this regard.

D&B Optimism Index for India for Q2 2006

The Business Expectation Survey for Q2 2006 was conducted following the Union Budget 2006-07 in the month of Mar 06. This holds significance from the industry point of view, as it reflects the business community's outlook towards the budget. The economic parley during the month was upbeat. This could be ascribed to the robust growth projections for the economy for FY06 and the pro-growth budget announcements for FY07.

The GDP growth for FY06, estimated at 8.1%, is a welcome sign. Besides the commendable performance in FY06, the budgetary announcements of FY07 were also well appreciated for its focus towards infrastructure; rural and social sector development, which is expected to maintain the growth momentum in FY07. There is every sign of the economy being in an expansionary phase, driven by consumer demand and a remarkable investment scenario.

Another indicator of an expanding economy is the demand for bank credit, which has outpaced bank deposits mobilised for the second consecutive year in FY06. Bank credit grew at 31% and bank deposits expanded by 17.6% in FY06 over the previous year. However, this imbalance has resulted in upward pressures on lending and deposit rates.

The growth trends for the last three years are indicative of a cyclical upswing in the economy. Overall industrial recovery that began from the second quarter of FY03 continues and business optimism has been high, as reflected in the pick-up in investments and the stock market

indices. The record-breaking run of the BSE Sensex, surpassing the Dow Jones in Mar 06, leaves no doubt that optimism on the economy is high. All other economic parameters are also testimony to a dynamic rising economy.

Reflecting the optimistic mood, the Composite Business Optimism Index (BOI) for Q2 2006 also showed increased confidence of the corporate sector for the quarter of Apr-Jun 06. The BOI for Q2 2006 stood at 177.5, an increase of 5.8% over the previous quarter BOI of Q1 2006. The increase in BOI for Q2 2006 over the similar quarter in 2005 stood at 7.5%.

Among the sectors, the optimism was high among the consumer non-durables and basic goods segments. The capital goods and consumer durables sectors, though optimistic seemed a bit restrained in their response probably in anticipation of higher interest rates and inflation rates during FY07.

Q2 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets, companies and Governments

Extract from March Manufacturing ISM Report on Business® (US Economy)

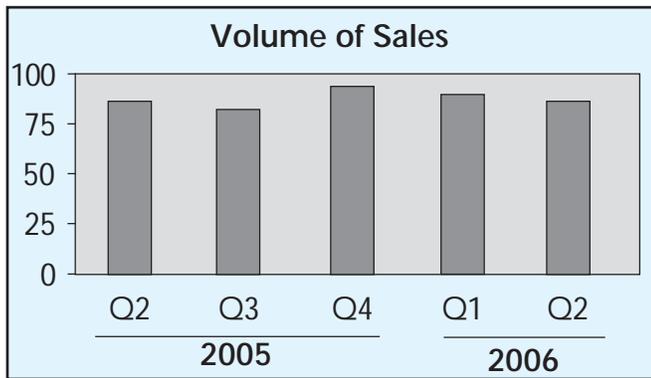
Economic activity in the manufacturing sector grew in March for the 34th consecutive month, while the **overall economy** grew for the 53rd consecutive month, say the nation's supply executives in the latest **Manufacturing ISM Report On Business®**.

The report was issued today by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The manufacturing sector, led by continued strength in new orders and production, continued to grow in March. The first quarter is now complete, and the ISM data indicates that it was a good quarter for U.S. manufacturing. Prices are still a major concern, particularly in the energy and metals markets. In general, manufacturing continues to experience a significant level of growth."

The PMI indicates that the manufacturing economy grew in March as it registered 55.2%, a decrease of 1.5 percentage points when compared to February's seasonally adjusted reading of 56.7%. ISM's New Orders Index grew in March with a reading of 58.4%. The index is 3.5 percentage points lower than the seasonally adjusted 61.9% registered in February. ISM's Production Index registered 57.5% in March, 0.1 percentage point higher than the seasonally adjusted 57.4% reported in February. ISM's Employment Index

expanded for the 10th consecutive month in March. The index registered 52.5% in March compared to the seasonally adjusted 55% registered in February, a decrease of 2.5 percentage points.

Manufacturers' inventories declined in March for the 12th consecutive month as ISM's Inventories Index registered 48.7%, indicating a faster rate of liquidation when compared to February's reading of 49.6% (seasonally adjusted). March's index represents a 0.9 percentage point decrease from February's index. Imports of materials by manufacturers grew during March as the Imports Index registered 57%. The index decreased 0.5 percentage point when compared to February's index of 57.5%, indicating a slower rate of growth. The 13 industries reporting growth in import activity for March are: Miscellaneous (preponderance of jewellery, toys, sporting goods and musical instruments); Wood and Wood Products; Textiles; Furniture; Instruments and Photographic Equipment; Food; Fabricated Metals; Paper; Transportation and Equipment; Rubber and Plastic Products; Chemicals; Industrial and Commercial Equipment and Computers; and Electronic Components and Equipment. (Beginning with the January 2006 report, the Imports Index no longer meets the criteria for seasonal adjustments.)

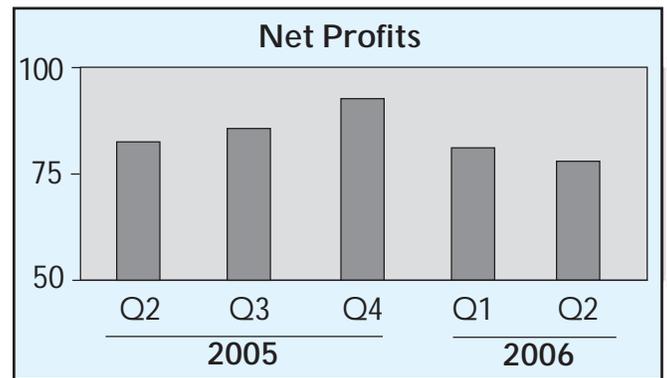


Volume of Sales

The Business Expectations survey for Q2 2006 discloses continuing and measured optimism in the business community towards perceived growth in demand. The Business optimism for the anticipated sales is at around 88%. The percentage of respondents, holding a negative perception for increase in sales, is at 3%. However, around 9% of the respondents expect the sales to remain at status quo. The resultant Optimism Index for the Volume of Sales stands at 85%. The basic goods and services sector are optimistic of an increase in sales, whereas optimism in the intermediate goods and consumer durables sector remains slightly suppressed in this respect.

Net Profits

The optimism towards increase in profits remains high in Q2 2006. Nearly, 83% of the respondents are confident of witnessing an increase in profit in Q2 2006, while around 3% of the respondents express their perception towards negative growth in profit. Overall, the resultant Optimism index for net profits for Q2 2006 is at 80%. The sectors that remain most optimistic in this regard were basic goods and consumer non-durables while optimism remains subdued in capital goods and consumer durables sectors.



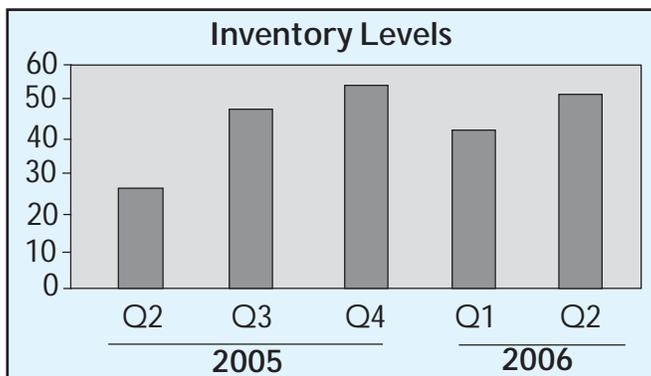
Selling Prices

Majority of respondents expressed the opinion of witnessing an increase in prices in Q2 2006. Around 52% of the respondents articulated their optimism of having a price increase for their products in the second quarter, nevertheless, around 8% of the respondents see a decrease in prices while approximately 40% of the respondents are of the view that prices would remain stable. The resultant Optimism index for Q2 2006 stands at 44%. Amongst the sectors, respondents in consumer non-durables and basic goods sectors are more optimistic of the price increase while the respondents in capital goods and consumer-durables sector were less optimistic on this count.

New Orders

The optimism of the respondents to obtain new orders in Q2 2006 remained intact with around 85% predicting an increase in orders for the second quarter. However, 3% of the respondents are circumspect and hold a negative view on this parameter. The resultant Optimism index stands at 82%. The optimism in the basic goods and consumer non-durables sectors remains high and stands at 89% and 95% respectively. On the other hand, the buoyancy in the consumer durables sector is less on this count.



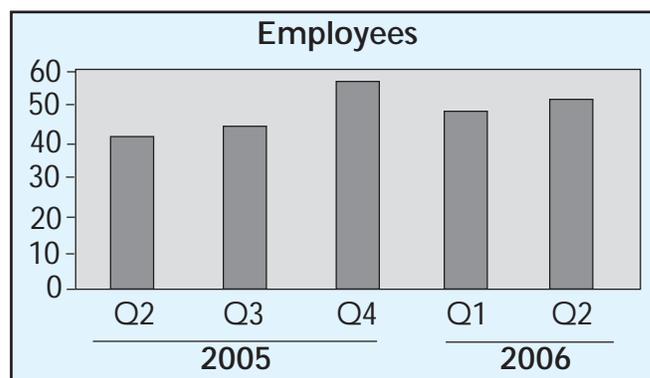


Inventory Levels

Around 58% of the respondents have opined an increase in inventory levels in the second quarter of 2006. The percentage of people perceiving a decline in stocks is at 7% with around 35% of the respondents foreseeing no change in the inventory levels in Q2 2006. The resultant Optimism index for Q2 2006 stands at 51%. The sectors that perceive the maximum rise in stocks for Q2 2006 are namely intermediate goods and consumer non-durables. The consumer durables and capital goods sectors were least optimistic on this parameter.

Employees

The optimism for growth in employment in Q2 2006 is high and stands at 57%. The percentage of respondents who see a decline in the rate of employment is at 4%, and around 40% of the respondents are of the opinion that there will be no change. The resultant Optimism index for Q2 2006 stands at 53%. The optimism in consumer non-durables sector is the highest on this count. On the other hand, the respondents of the basic goods and consumer durable goods sectors showed lesser optimism towards increased recruitment in Q2 2006.



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