dun & bradstreet

Country Insight Snapshot

India

July 2021

Written 02 July 2021

OVERVIEW

OVERALL COUNTRY RISK RATING: DB5c

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Deteriorating

CORE OUTLOOK

+ India will ultimately benefit from a multi-year expansion in e-commerce, mobile internet use and financial technology.
+ The 15-to-25-year-old population sector will reach 300m and provide a powerful demographic dividend in the next decade if they find jobs.

- Even before the pandemic, investment had stalled, inhibited by policy shocks, implementation gaps, over-capacity, financial frauds, bad debts and barriers to land reform.
- The pandemic's return means that India faces an unprecedented shock to tax revenues, household incomes, and savings and business revenues.
- Night-time light intensity data analysed by the World Bank in 2020 confirmed that rising Covid-19 cases brought a decline in electricity use and activity at district level.
- Two-thirds of Indians depend on farm income, making India vulnerable to monsoonal disruption from climate change and El Nino episodes.

KEY DEVELOPMENT

Our deteriorating outlook reflects the shock to household finances, some pass through of input price to retail inflation, and uncertainty about a Covid-19 third wave.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Stable

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

R

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

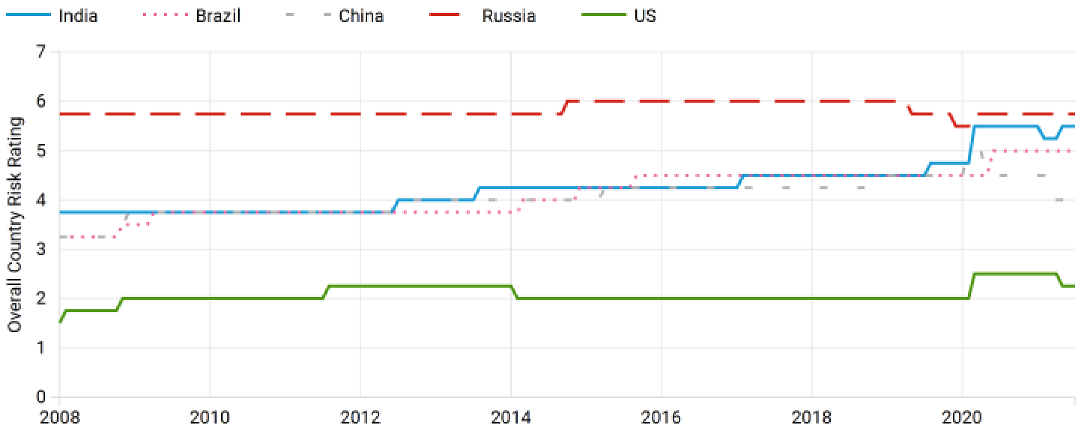
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

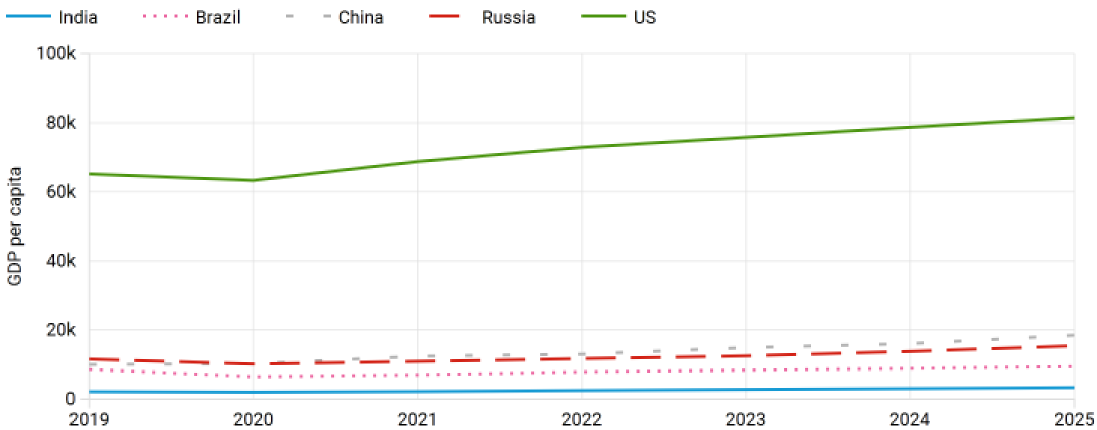
Rating History and Comparison



Source: Dun & Bradstreet

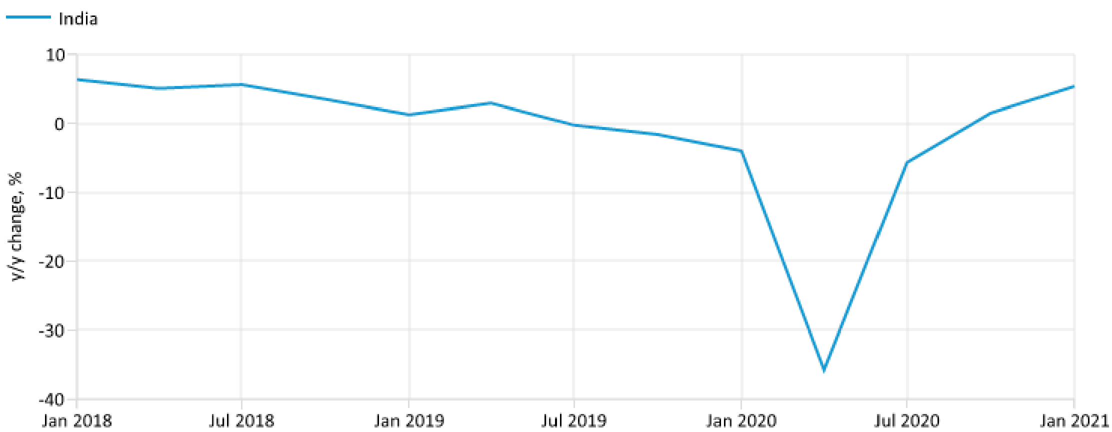
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-2.1	-0.9	0.8	-1.2	-1.7	-1.3	-1.6	-1.1
Debt Service Ratio, %	6.4	6.5	7.5	7.8	8.0	8.5	9.0	8.5
Govt balance, % GDP	-3.4	-4.6	-9.2	-7.4	-6.0	-5.0	-4.8	-5.2
Inflation, annual avge %	3.4	4.8	6.2	5.7	5.0	4.0	4.5	4.0
Real GDP Growth, %	6.5	4.0	-7.3	7.5	7.9	6.5	6.0	5.5

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

While large listed entities have leveraged their resilience and economies of scale to keep dominating new business opportunities in the pandemic era, micro- and small-scale enterprises (SMEs) have continued to suffer severe dislocation and shocks. This appears to have registered in the credit deployment data for April 2021, a month in which the second wave of the coronavirus was emerging, contracting by 2.2% y/y for the first time since the pandemic began. The negative credit shock, as banks scale back their exposures to the sector, must be why the government further expanded its emergency credit line scheme in June.

Another broad gauge of business activity, fuel consumption, clearly showed the brunt of the second wave in April and May. While use of gasoline and diesel was up 59.6% and 39.7% y/y from the total national lockdown of 2020, respectively in April-May combined, they were 15.8% and 19.2% down from 2019 levels. Total refined fuel consumption, including important industrial feedstocks like Naptha and LPG, a key fuel for home cooking, fell 14.4% from April-May 2019. However, use of LPG was in fact up 8.3% against 2019 levels, reflecting less mobility. Indeed, traffic congestion levels, according to tomtom.com, were still barely half their 2019 levels in Mumbai, Bangalore and New Delhi in June and into July.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

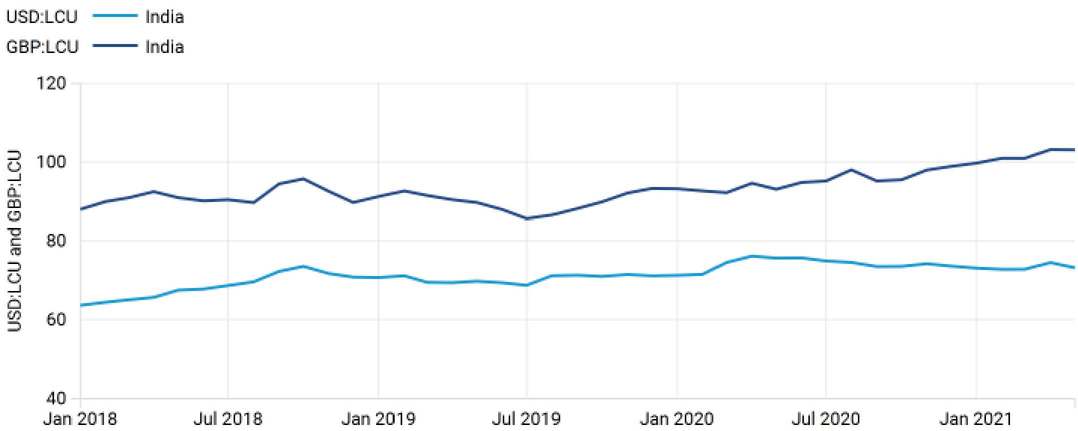
Local Delays: 0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

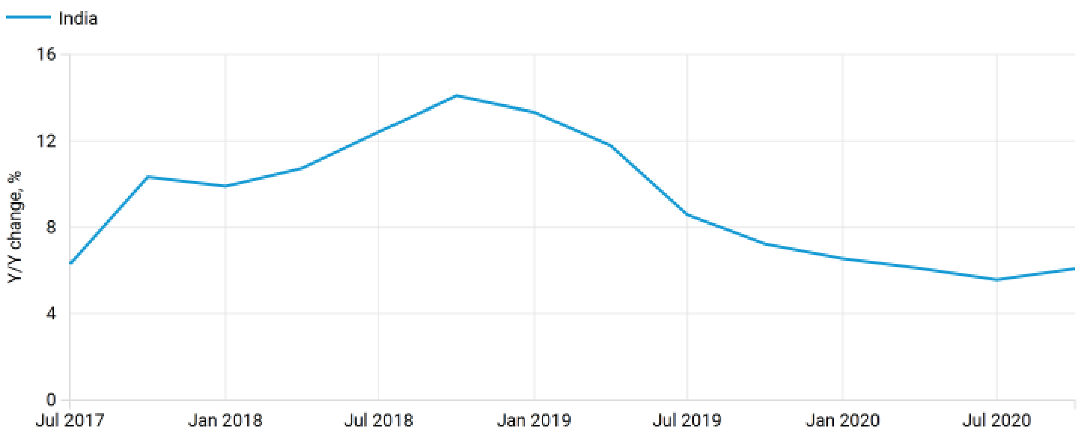
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Depleted savings will hold back consumer recovery after second wave

India's economy is due to pick up into Q3 having borne the brunt of the second wave of the pandemic in April-May. The monsoon has settled in well and after delays in June is two weeks ahead of schedule in many parts. Customs data shows that exports held up throughout the worst of the second wave. However, the rural population and urban middle-class were badly affected. If the anecdotal measure that every family has had at least one casualty of some description is correct, the case numbers will have been far above the official 30m count of Covid-19 cases that was passed in June. Savings are likely to have been depleted or often exhausted by urgent medical expenses that were frequently futile. Although the data from CMIE, a private consultancy that produces widely followed labour-market measures, shows unemployment falling back to below double-digit rates since May, the labour force participation rate remained weak and below 40% into June. India's young population and gender differences means the labour-force participation rate is low and disruption to schools since the pandemic will have further depressed it.

Official data shows that from over 500 of India's 741 districts reporting high daily case counts of over 100 in May, their total had fallen to 125 by late June. However, we expect the pace of recovery in demand, especially in rural areas, to remain subdued, even if the state-level restrictions India relied on to combat the second wave, are gradually eased. The full vaccination rate remained at just 6% of adults as of early July, and Maharashtra, the economic powerhouse state with a population of close to 120m, which is home to Mumbai and often reported close to a quarter of all new cases during the second wave, has already re-introduced some restrictions to prevent the 'delta-plus' variant gaining ground. It is barely four months since the delta variant was first discovered in Maharashtra itself in March, and the 'delta plus' variant already has been labelled a variant of concern due to its suspected even higher transmissibility.

The Consumer Confidence Survey conducted by the central bank shows for May 2021 that the Indian consumer sentiment hit an all-time low, as consumers' perception of the general economic situation and employment declined further. Consumers are also not upbeat about the future. The future expectations index of consumers moved into pessimistic territory in May 2021 for the second time since the onset of the pandemic. Uncertainty and caution will prevail regarding the economic situation, employment and income levels. The fact that retail inflation reached 6.3% y/y in May, rising above the central bank target range ceiling, despite the depression in demand, will also restrain real incomes. Not only the pandemic disruption to supply chains but fuel prices on the back of crude oil are responsible.

Business Regulatory Environment

FDI and portfolio inflows even as new barriers to business emerge

FDI inflows continued even as the pandemic re-emerged reaching USD6.2bn, in April. Equities portfolio investors pulled funds out in net terms in April and May, but in June poured in INR172bn (USD2.3bn), offsetting the outflows. On the back of Q1 2021 financials, which have indicated what a successful post-pandemic economy might resemble, the Nifty 50 index reached record highs in June. However, regulatory uncertainty remains fairly elevated for major foreign investors. This was arguably reflected in the IMD's World Competitiveness Ranking for India in 2021 which left it ranked 43 of 64, as in 2020, where supportive public policy is a component of the survey.

While Vodafone and Cairn Energy have had long-running struggles with the tax authorities, Amazon and Walmart's Flipkart have faced new barriers to e-commerce strategies, after hostile lobbying by domestic retail groups. An investigation by Reuters published in February helped to re-open a government case against the two former e-commerce giants for privileging related vendors on their sites. Meanwhile, Facebook and its Whatsapp platform and Twitter have all faced regulations on content or new conditions on doing business in India.

COUNTRY PROFILE AND STATISTICS

Overview

With over 1.3bn citizens, India is the world's most populous democracy and second-largest country. It became a sovereign republic in 1947 and joined the Commonwealth of former British colonies in 1950. India borders Pakistan to the northwest; China, Bhutan and Nepal to the northeast; and Bangladesh and Myanmar to the east. India's economy encompasses village farming, modern agriculture, handicrafts, modern industries, and services (worth half of GDP).

Until the 1990s, the economy was held back by stringent state controls, but these were liberalised considerably in a first generation of reforms, and in the 2000s the economy grew, on average, by over 7% a year. However, realising India's potential in the 2020s will require the addressing of major challenges, including infrastructure gaps, political, legal and practical restrictions on land use, ineffective poverty alleviation, and a legacy of corruption. Other factors still to overcome include inefficient national tax structures, insurgencies in the northeast, the fragile *detente* with Pakistan, dependence on erratic monsoons, and communal and sectarian tensions. Moves towards bringing transactions and employment into the formal economy and the digitisation of business and government are advancing from their early stages.

Key Facts

Key Fact	Detail
Head of state	President Ram Nath KOVIND
Capital	New Delhi
Timezone	GMT +05-30
Official languages	Hindi, English
Population (millions)	1,346.2
GDP (USD billions)	2,674.3
GDP per capita (USD)	1,987
Life expectancy (years)	69.3
Literacy (% of adult pop.)	74.4
Surface area (sq km)	3,287,260

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	8.3	6.8	6.5	4.0	-7.3
Nominal GDP in USDbn	2,295	2,651	2,701	2,871	2,674
Nominal GDP in local currency (bn)	153,917	170,900	188,870	203,510	198,500
GDP per Capita in USD	1,767	2,024	2,028	2,142	1,987
Population (year-end, m)	1,299.0	1,310.0	1,332.0	1,340.0	1,346.2
Exchange rate (yr avge, USD-LCU)	67.1	64.5	69.9	70.9	74.2
Current Account in USDbn	-15.2	-48.7	-57.2	-24.6	22.5
Current Account (% of GDP)	-0.7	-1.8	-2.1	-0.9	0.8
FX reserves (year-end, USDbn)	340.3	388.7	373.9	432.0	548.8
Import Cover (months)	8.4	8.0	7.0	8.6	13.5
Inflation (annual avge, %)	4.5	3.6	3.4	4.8	6.2
Govt Balance (% GDP)	-3.5	-3.5	-3.4	-4.6	-9.2

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	7.5	7.9	6.5	6.0	5.5
Nominal GDP in USDbn	2,955	3,366	3,783	4,190	4,597
Nominal GDP in local currency (bn)	226,084	256,142	283,703	314,258	344,804
GDP per Capita in USD	2,187	2,479	2,758	3,040	3,316
Population (year-end, m)	1,351.1	1,357.8	1,371.4	1,378.3	1,386.5
Exchange rate (yr avge, USD-LCU)	76.5	76.1	75.0	75.0	75.0
Current Account in USDbn	-36.0	-57.0	-51.0	-66.0	-51.0
Current Account (% of GDP)	-1.2	-1.7	-1.3	-1.6	-1.1
FX reserves (year-end, USDbn)	531.0	450.0	489.0	475.0	429.0
Import Cover (months)	11.3	8.7	9.1	8.5	8.0
Inflation (annual avge, %)	5.7	5.0	4.0	4.5	4.0
Govt Balance (% GDP)	-7.4	-6.0	-5.0	-4.8	-5.2

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,187	6,981	12,390	10,896	68,740
Country Population (m)	1,351.1	214.0	1,444.2	145.9	332.9
Internet users (% of population)	34.5	67.5	54.3	80.9	87.3
Real GDP Growth (% p.a., 2021 - 2030)	4.0 - 6.0	1.5 - 2.5	4.5 - 6.5	-0.5 - 3.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet

LINKS

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Please click here to visit our online user guide.

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