dun & bradstreet

Country Insight Snapshot

India

October 2021

Written 08 October 2021

Overall Country Risk Rating: DB5a Last change: October 2021

R

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

Rating Outlook: Deteriorating

WorldWatch Headline

Measures taken to boost FDI inflows, boost the domestic manufacturing base and facilitate investment clearances have supported our country risk rating upgrade by two quartiles.

Recent Changes

- We have upgraded the short-term outlook by two quartiles as the festival season along with good agricultural output should uplift both rural and urban demand.
- Easing of Covid-19-related restrictions coupled with increasing the FDI limit in telecom and initiation of trade agreements has triggered a rating upgrade to market potential.
- We have upgraded our business continuity rating by three quartiles as most of the restrictions have been scaled back and the logistics sector is gaining traction.

Events to Watch

- India faces an energy crunch with India's power plants running on critically-low coal stocks, and some states may soon face a 'blackout'.
- Low supply and a surge in energy prices will impact economic decisions across the supply chain and aggravate supply-chain challenges for India Inc.
- The government will release all pending dues to exporters under various schemes which amounts to INR750bn to support export growth.

Call to Action

- Businesses can adjust their inventory and sales management strategy to be ready to cater to a potential boom in demand.
- Watch out for the increases in tariff and non-tariff barriers, as the government continues to promote and facilitate domestic market share, and resort to D&B Market Insight to better understand your customers and opportunities.
- Increase close monitoring of strategic accounts as shortage of raw materials and high logistics costs might impact production activity and profitability margins of suppliers.

Country Insight Headlines

Credit Environment

Score: DB5a

Last change: October 2021 (DB5c➔DB5a)

R

Rating Outlook: Stable

Risks and Opportunities

- Cessation of bonds purchases through G-SAP or Government Securities auctions coupled with expansion of variable rate reverse repo (VRRR) auctions suggests a clear move towards liquidity normalisation.
- The central bank kept policy rate unchanged for the eight time in its October policy meetings and decided to continue with the accommodative policy stance.
- However, delinking the accommodative stance on policy from liquidity absorption by the central bank would prevent frontloading of rate hike expectations.
- The surge in energy and commodity prices, shortage of raw materials, high logistics costs along with strengthening of demand are expected to fuel inflationary pressures.
- If energy prices continue to remain elevated, the pass-through of high energy prices into core inflation, which remains sticky and elevated, will pose a policy dilemma for the RBI.

Trade Terms

Description	
Minimum Terms	LC
Recommended Terms	LC
Usual Terms	30-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Call to Action

- Expect the RBI to continue to relax regulatory capital and liquidity norms for banks, as it expects them to shoulder greatly increased credit costs.
- Monitor counterparty risk closely; an increase in the number of business failures in H2 2021 and 2022 is likely, given the second coronavirus wave.
- Assume that the financial sector will remain stable, as the central bank continues to provide support.
- Expect both short-term and long-term interest rates and lending rates to remain low, as the central bank has introduced targeted measures.

Supply Environment

Score: DB5b R

Last change: October 2021 (DB5d➔DB5b)

Rating Outlook: Stable

Risks and Opportunities

- Low supply and a surge in energy prices will impact economic decisions across the supply chain and aggravate supply-chain challenges for India Inc.
- Power shortages in China, which has forced manufacturing units to cut down their production, is expected to hurt supplies for import-dependent sectors when they run out of their inventories.
- Two out of six of the Dedicated Rail Freight Corridors, which will decongest railways by moving 70% of India's goods trains have been delayed.
- Launch of 'Vulnerability Atlas' which will map districts which face the highest risk from 13 major extreme events and issue warnings will be helpful for planning business continuity.

Call to Action

- Note that cyber-security precautions need to be taken, as cyber-attacks remain high.
- Ensure that you have procurement and supplier management in place, given that there can be delays to trade with India, as traders face container shortages at ports.
- Increase close monitoring of strategic accounts as shortage of raw materials and high logistics costs might impact production activity and profitability margins of suppliers.
- Use risk analytics solutions to identify suppliers at risk across the network.

Market Environment

Score: DB5c

Last change: October 2021 (DB6a➔DB5c)

R

Rating Outlook: Deteriorating

Risks and Opportunities

- Improvement in the short-term economic outlook along with easing of Covid-19-related restrictions, coupled with an increased FDI limit in telecom and initiation of trade agreements, has led to a two-quartile upgrade in the overall market environment.
- PLI schemes introduced for the textiles auto, auto component and drone industries will boost domestic manufacturing by attracting both domestic and international players.
- Some of the textile hubs impacted by the power shortage in China should open up opportunities for Indian textile players.
- Most of the fiscal stimulus measures have been directed towards structural reforms in strategic sectors and will help to unclog the supply-side hindrances in the economy.
- India's restrictive tech regulations, including the data protection bill and social media rules, could interrupt market planning for existing and new participants.

Call to Action

- Be aware that the localisation clause for the IT sector under the PLI scheme mandates foreign companies to locally produce certain components in order to avail its incentives.
- Watch out for the increases in tariff and non-tariff barriers, as the government continues to promote and facilitate domestic market share, and resort to D&B Market Insight to better understand your customers and opportunities.
- Note the embargo imposed on imports of defence equipment.

Political Environment

Score: DB4b

Last change: N/A➔DB4b

A

Rating Outlook: Stable

Risks and Opportunities

- After India and China withdrew troops from Gogra (Ladakh) in August, three friction points on the Line of Actual Control still remains unresolved.
- The yearlong protests by the farmers acquired political significance after protesting farmers and one journalist died in the state of Uttar Pradesh in October
- This could turn unfavourable for the ruling government which faces Uttar Pradesh state election in February 2022.
- The next political milestone will come in 2022, when the ruling government will contest election in seven states governed by them; during the second term, the party had won in four out of ten state elections.
- Taking adequate measures to control future pandemic waves, faring well in the 2022 state elections and resolving the remaining issues with China are the three critical challenges faced by the government.

Call to Action

- Note that operations in India will carry a baseline security risk for most firms: take out adequate cover against cyber-attack, unrest and terrorist attacks.
- Watch out for disruptions as farmer associations will hold protests/bandhs in retaliation to the incident related to deaths of farmers in the state of Uttar Pradesh.

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