

Country Insight Snapshot

India

January 2022





Overall Country Risk Rating: DB4d

Last change: November 2021



Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Rating Outlook: Improving

WorldWatch Headline

Both operational and credit risks have increased for small businesses amid restrictions to curb the pandemic.

Recent Changes

- Both operational and credit risks have increased for small businesses.
- The recent spurt in the number of coronavirus cases is adding to concerns about renewal of various forms of restriction; this is likely to restrain private demand and decrease optimism levels for investments by corporates.
- The political risk is upgraded by one quartile as the policy uncertainty index plunges to its lowest level since June 2007 and the year-long farmers' protest ends.

Events to Watch

- Reserve Bank of India (RBI) data indicate that signs of stress in bank loans to small businesses emerged by September 2021, before the outbreak of Omicron.
- Our proprietary data shows operational risks remained high in sectors dominated by small businesses in September 2021 compared to before the second wave.
- Power plants had built up stocks of around eight days as at 13 January, against the required 23 days, which is no improvement from the situation in November 2021.
- The government has set up multiple task forces to explore technological innovations and various commercial use cases for 6G.

Call to Action

- Increase close monitoring of strategic accounts; shortages of raw materials and high logistics costs might affect production activity and profit margins of suppliers.
- Closely monitor the payment performance of companies that you trade with; sectoral recovery remains uneven.
- Perform credit checks and due diligence before engaging with new and existing small businesses as the probability of loan default remains high.



Country Insight Headlines

Credit Environment

Score: DB4b



Last change: December 2021 (DB4c→DB4b)

Rating Outlook: Stable

Risks and Opportunities

- Measures to curb the surge in Omicron cases along with persistent global supply chain disruptions and elevated global commodity prices would push domestic prices higher in the next few months.
- We expect the gap between wholesale and retail inflation to narrow soon and there will be a pass-through of the of elevated commodity price at the factory gate level to the retail inflation
- Core CPI inflation rose to a 5-year high of 5.59% in December and will likely inch above 6% in the near term.
- Reserve Bank of India (RBI) data indicate that signs of stress in bank loans to small businesses emerged by September 2021, before the outbreak of Omicron. Our proprietary data show operational risks remained high in sectors dominated by small businesses in September 2021 compared to the year ago period, before the second wave.
- Dun & Bradstreet Global Business Ranking (GBR)TM, which predicts the likelihood that a company will become inoperable, inactive or dormant over the next 12 months, is elevated in sectors such as textiles, paper and print, textile, retail and construction.

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.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available, conditions apply
Euler Hermes AG	Full cover available, conditions apply

Source: Export Credit Agencies

Call to Action

- Closely monitor the payment performance of companies that you trade with; sectoral recovery remains uneven.
- Assume financial sector stability as the central bank continues to provide support.
- Expect short-term and long-term interest rates and lending rates to start increasing as retail inflation starts inching up and the RBI unwinds excess liquidity in the market.
- Expect input cost pressures to affect profit margins.
- Be aware that the credit profile of small businesses remains stressed.
- Perform credit checks and due diligence before engaging with new and existing small businesses as the probability of loan default remains high.



Supply Environment

Score: DB4d



Last change: January 2022 (DB5a→DB4d)

Rating Outlook: Stable

Risks and Opportunities

- Gati Shakti, the National Master Plan project for multi-modal connectivity and integrated planning and implementation of infrastructure projects, was launched in October 2021 with a fund of INR100trn (~USD1.3trn).
- The year-long ban on futures trading of seven commodities to prevent speculative transactions-led price volatility will prevent firms from hedging on commodity exchanges, leading to inventory cuts and in turn low procurement from farmers.
- Power plants had built up stocks of around eight days as at 13 January against the required 23 days, no improvement from the situation in November 2021.
- An Indonesian ban on coal exports in January has put thermal coal importers in a tight spot; they imported more than 40% of their requirements from Indonesia in H1 2021.
- Regular international flights remain suspended until end-January 2022, posing challenges for reviving the aviation and tourism sectors.
- Strained global-supply chains and semiconductor shortages remain major headwinds.
- The government has set up multiple task forces to explore technological innovations and various commercial use cases for 6G.

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 because of supply-chain disruption.
- Increase close monitoring of strategic accounts; shortages of raw materials and high logistics costs might affect production activity and profit margins of suppliers.
- Use risk analytics solutions to identify suppliers at risk across the network.



Market Environment

Score: DB4d



Last change: November 2021 (DB5c→DB4d)

Rating Outlook: Improving

Risks and Opportunities

- The government is pursuing initiatives to improve the ease of doing business and create market opportunities.
- Emerging opportunities in sectors in which production-linked incentive (PLI) schemes have been introduced, and the initiation of trade agreements, have improved India's market potential.
- India is targeting a five-fold increase in technical textile exports in the next three years.
- While foreign tech companies are well positioned in India's booming internet and e-commerce marketplaces, strong local competitors are also emerging.
- India and Russia have set a trade and investment target of USD30bn and USD50bn respectively by 2025.
- The proposed early-harvest free-trade agreement between India and Australia by year end or early next year may lead to lower import duties on a handful of items.
- The EU is likely to seal an investment deal with India after tax disputes: India and the EU have discussed measures to operationalise their decision to resume negotiations for trade, stand-alone investment protection pact and geographical indications (GIs).
- Protectionism has increased since 2018; the 2021 budget further upped tariffs on some important industrial inputs.

Call to Action

- Be sure to maintain an understanding of your customers' needs; explore opportunities in sectors where the PLI scheme has been introduced.
- Be aware that the localisation clause for the IT sector under the PLI scheme mandates foreign companies to produce certain components locally in order to benefit from the scheme's incentives.
- Watch out for increases in tariff and non-tariff barriers as the government continues to promote and facilitate domestic market share.



Political Environment

Score: DB4a



Last change: January 2022 (DB4b→DB4a)

Rating Outlook: Stable

Risks and Opportunities

- India's Economic Policy Uncertainty Index decreased sharply to 30 in November 21 from 44 in October 21, the lowest reading since June 2007.
- Indian farmers' year-long protest ended when the government agreed to withdraw the three controversial farm laws, provided assurances on minimum support prices (MSP), and agreed to withdraw police cases against them.
- The end of the political stalemate between the government and farmers will likely increase the chances of the ruling government gaining an edge in the upcoming state elections due to be held from mid-February.
- The outcome of these elections, in Uttar Pradesh, Uttarakhand, Punjab, Goa and Manipur, will be a barometer for national elections in 2024.
- India has broadened defence ties with Russia, one of India's largest arms suppliers, despite the potential risk of US sanctions.
- The 13th round of talks between India and China ended in stalemate and there was no breakthrough in the 14th round of discussions in January 2022.
- After India and China withdrew troops from Gogra (Ladakh) in August, three friction points on the Line of Actual Control still remain unresolved.
- Despite the lingering military standoff in eastern Ladakh, bilateral trade between India and China surpassed USD100bn in the period January-November 2021.

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 the outcome of the upcoming elections - ruling-party losses in these states could lead to derailment of key ongoing central sector projects.



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