

Country Insight Snapshot

India

July 2022





Overall Country Risk Rating: DB4c

Last change: February 2022



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

Rating Outlook: Stable

WorldWatch Headline

Taxes on various goods and services - including certain export goods - along with windfall profit tax on crude oil producers, are likely to impact corporate earnings and dent confidence.

Recent Changes

- Taxes on various goods and services will dent both corporate earnings and confidence.
- India plans to introduce a production-linked incentive (PLI) scheme to encourage manufacturing of electrolyzers to extract hydrogen from water.
- We expect the rupee to continue to face depreciation pressures from FII outflows, strengthening of the dollar and the widening of the trade deficit.
- Spillovers from prolonged geopolitical tensions, multi-year high input costs and rising borrowing costs, continued supply bottlenecks will weigh on growth.
- Droupadi Murmu, the 15th president, is the youngest - and the first tribal - president to be elected in the history of India and is only the second woman to hold the position.

Events to Watch

- Protracted supply-chain disruption and geopolitical risks mean headline inflation is expected to remain above the RBI's upper limit threshold of 6% for most of 2022.
- The central bank has hiked the policy interest rate by 90 bps points in two tranches and will be under pressure to further hike rates amid domestic inflation uncertainty.
- The passing on of rising costs from wholesale to retail inflation will be faster than expected; businesses face margin pressures from rising input costs and borrowing costs.

Call to Action

- Monitor the credit profile of small businesses as their credit remains stressed.
- Watch out for increases in tariff and non-tariff barriers as the government continues to promote and facilitate domestic market share.
- Ensure that you have procurement and supplier management in place, given that there can be delays to trade because of supply-chain disruption.



Country Insight Headlines

Credit Environment

Score: DB4a



Last change: May 2022 (DB4c→DB4a)

Rating Outlook: Stable

Risks and Opportunities

- Lending to the commercial sector, as well as to consumers, has picked up - indicating economic activity momentum.
- Non-food credit is growing substantially since April 2022; credit to the medium and small scale industries is growing at double digits, but remains weak across cement, metal, construction, and the airports and ports sector.
- Spillovers from prolonged geopolitical tensions, multi-year high input costs and rising borrowing costs, continued supply bottlenecks and tightening global financial conditions weigh on the growth outlook.
- We expect real GDP growth to moderate sharply to 7.1% in 2022/23 from 8.7% in 2021/2022.
- Expect the rupee to continue to face depreciation pressures from FII outflows, dollar strengthening, trade deficit widening and downside risks to growth.
- According to central bank estimates, there has been an increase in the pass-through of exchange rate changes to domestic inflation in India in the recent period; from 0.11 units in the pre-pandemic period to 0.18 units in Q2 2022.
- Headline inflation is expected to remain above the RBI's upper limit threshold of 6% for most of 2022. The central bank has hiked the policy interest rate by 90 bps points in two tranches and is under pressure to hike interest rates.

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 you trade with.
- 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.
- The probability of a loan default remains high; perform credit checks and due diligence before engaging with new and existing small businesses.



Supply Environment

Score: DB4d



Last change: January 2022 (DB5a→DB4d)

Rating Outlook: Stable

Risks and Opportunities

- Supply chain pressures are edging down in India. An index of supply chain pressures for India (ISPI) released by the central bank shows easing of domestic supply chain pressures.
- Further, a study by the central bank estimates that a 10 per cent rise in import freight price leads to a rise in annual consumer price inflation by 0.21 percentage points.
- Stable demand conditions and improved business continuity are leading to traction in the logistics sector with railway freight, port traffic and domestic air traffic picking up pace.
- The global supply gap in tea and apparel exports supplied from Sri Lanka, impacted by the ongoing economic crisis, provides opportunities for Indian exporters.
- Heat waves along with traction in economic activity have led to an increase in daily peak power shortages. Non-payment of dues to Coal India Ltd by the states, delays in lifting coal, and poor planning are adding to concerns in the power industry.
- Driven by increasing demand for electricity and a shortage of domestic coal supply, coal imports spiked by 241.8% (y/y) basis in June 2022, rising for the fifth consecutive month.
- Given the coal shortage, the government might put its import substitution plan for coal on hold until domestic production scales up.

Call to Action

- Take cyber-security precautions as the number of cyber-attacks remains 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 the close monitoring of strategic accounts - shortages of raw materials and high logistics costs might affect production activity and the profit margins of suppliers.
- Use risk analytics solutions to identify suppliers at risk across the network.



Market Environment

Score: DB4b



Last change: May 2022 (DB4c→DB4b)

Rating Outlook: Stable

Risks and Opportunities

- Rural consumption should benefit from the likely normal south-west monsoon while a rebound in contact-intensive services is expected to drive urban consumption.
- Consumer spending has remained buoyant as evident from the high double-digit growth consumer durables sector loans, besides housing and vehicle loans.
- India's merchandise imports (USD63.6bn) surged to their highest monthly level in June 2022, growing by 51% on a y-o-y basis driven largely by petroleum products and coal, and coke, which contributed more than 65% of total import growth.
- Nonetheless, demand is likely to remain tepid going ahead as inflation remains elevated and growth momentum slows.
- India plans to introduce a production-linked incentive (PLI) scheme to encourage manufacturing of electrolyzers to extract hydrogen from water.
- Protracted supply-chain disruption, aggravated geopolitical risks, weakening global growth and protectionist policies mean that the momentum of export growth is at risk.
- India has signed FTAs with the UAE and Australia and is planning to sign agreements with the UK, the EU, GCC members and Canada, amongst others.
- In April, timelines were reduced for voluntary liquidation processes and more liquidator responsibilities were imposed.
- Protectionism has increased since 2018; the 2022 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.
- Look for opportunities in countries with which India has signed trade agreements.



Political Environment

Score: DB4a



Last change: January 2022 (DB4b→DB4a)

Rating Outlook: Stable

Risks and Opportunities

- India's focus on the defence sector has increased with the introduction of an open general export licence policy, the launch of seven defence public-sector units and the establishing of two defence industrial corridors.
- Geopolitical tensions pose significant challenges to India, which imports 85% of its total oil requirement; it has decided to increase oil imports from Russia, previously a marginal supplier that accounted for only 1% of crude oil imports.
- The termination of oil imports from countries such as Iran and Venezuela (US secondary sanctions) have also added to India's challenge of procuring oil at a competitive price.
- The importance of the Quad (alliance between US, Japan and Australia) is growing rapidly in India's geopolitical calculus as unresolved territorial problems with Beijing continue.
- India has signed free-trade agreements (FTAs) with Australia in 2022 and Japan to invest USD42bn (JPY5trn) in several public and private infrastructure projects over the next five years.
- Even after the fifteenth round of talks between India and China, the military log-jam has calcified into a diplomatic impasse: the deployment of Chinese troops along the LoC is unfavourable for both countries.
- Despite the lingering military standoff in eastern Ladakh, bilateral trade between India and China is likely to surpass USD100bn in 2021/22.

Call to Action

- Note that operations in India will carry a baseline security risk for most firms; take out adequate cover against cyber-attacks, unrest and terrorist attacks.



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Email: countryinsight@dnb.com
Telephone
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or call +44 20 7149 5000

Publisher

Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

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