dun & bradstreet

Country Insight Snapshot
India

January 2020

OVERVIEW

OVERALL COUNTRY RISK RATING: DB4d

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

A

Rating Outlook: Deteriorating rapidly ⊙

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.

- Investment has stalled, inhibited by policy shocks, implementation gaps, over-capacity, financial frauds, bad debts and barriers to land reform.

- Two-thirds of Indians depend on farm income, making India vulnerable to monsoonal disruption from climate change and El Nino episodes.

- Labour-intensive industries are failing to grow and absorb new workers quickly, and radical labour reforms remain a politically-distant prospect.

KEY DEVELOPMENT

Most elements of demand remain impaired and pressure is building on the government to stimulate growth even as its revenue mobilisation falters.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly ⊙

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a negative impact on the outlook.
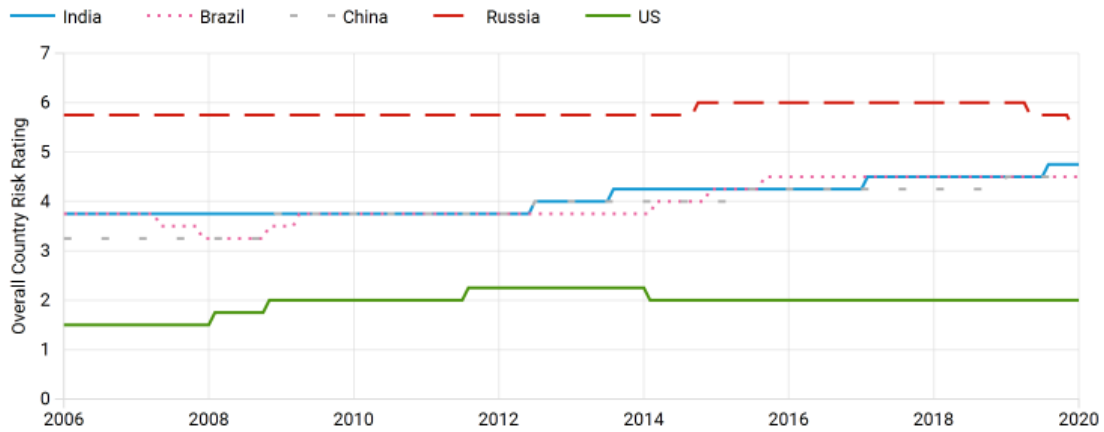
POLITICAL ENVIRONMENT OUTLOOK

A

Trend: Stable →

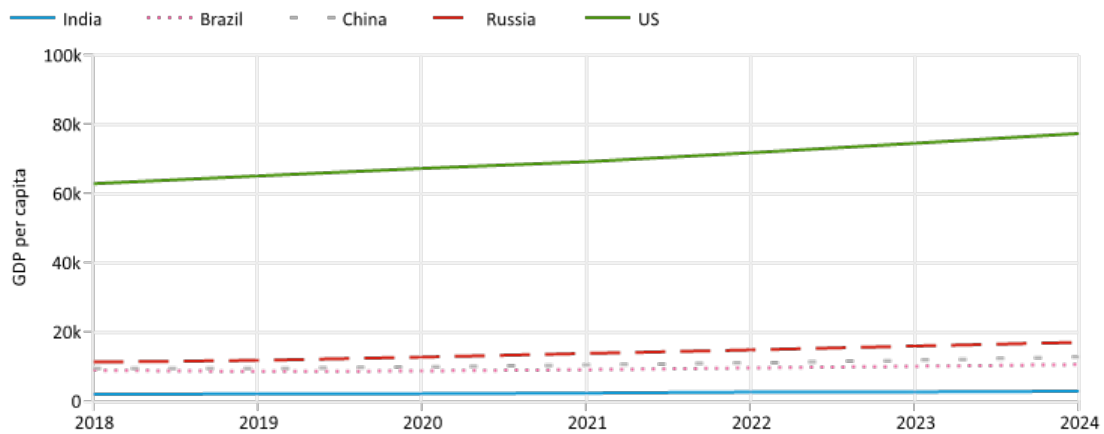Key Development has had a neutral impact on the outlook.

KEY INDICATORS

Rating History and Comparison

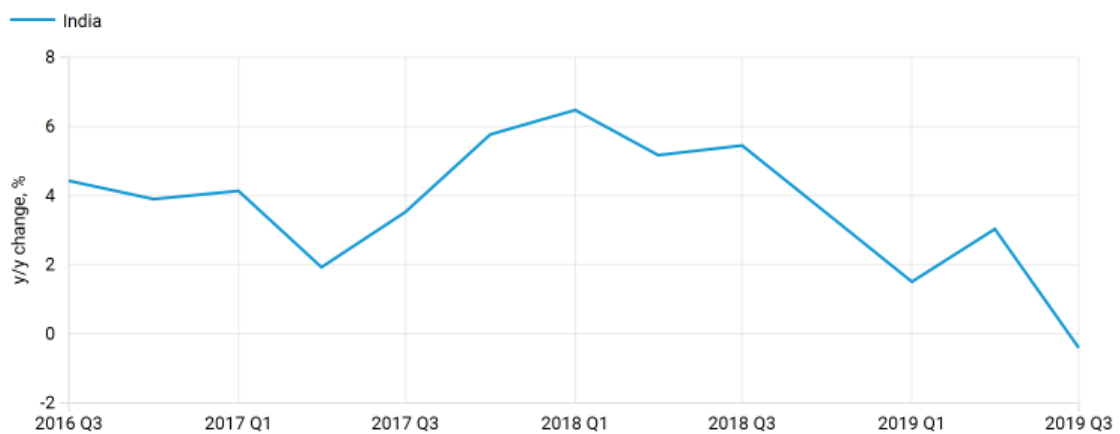Source: Dun & Bradstreet

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	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-1.8	-2.1	-1.7	-1.8	-1.4	-1.6	-1.3	-1.6
Debt Service Ratio, %	7.5	6.4	7.5	8.0	8.3	8.0	8.5	9.0
Govt balance, % GDP	-3.5	-3.5	-4.0	-3.9	-3.7	-4.0	-4.0	-4.0
Inflation, annual avge %	3.6	3.4	3.6	4.4	5.3	4.5	4.5	4.5
Real GDP Growth, %	7.2	6.8	5.0	6.3	7.3	7.0	6.9	6.9

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The Reserve Bank of India's (RBI) banking stability indicator, based on September 2019 data, improved again from its March 2019 levels in terms of soundness, profitability, efficiency and liquidity, although asset quality did not improve. Nevertheless, even in the RBI's baseline, best-case scenario, commercial banks' gross non-performing asset ratio will still rise from 9.3% as of September 2019 to 9.9% in September 2020, due to slower economic growth, 'marginal increases' in new bad loans and slowing credit growth. Given that the economy could well under-perform the bank's best-case scenario, the deterioration could be larger: the RBI's 'severe' scenario models a 10.5% banking system bad assets ratio in September 2020. This assumes what we still judge to be an unrealistically pessimistic slowdown to 2.9-3.0% real growth in the current and next (April-March) fiscal year. However, given the uncertainty about the accuracy of official GDP data and its ability to measure the overall economy - including the shocked informal component - the bank's 'severe' scenario is plausible. Geopolitical risk premiums and the crude oil price need monitoring and could feed into a more negative scenario: the RBI's 'severe' scenario assumes higher inflation of over 9.0% in the 2019/20 and 2020/21 fiscal years, and a deterioration in the current account to post a deficit of 5.6% of GDP in 2020/21.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

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 weeks

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.
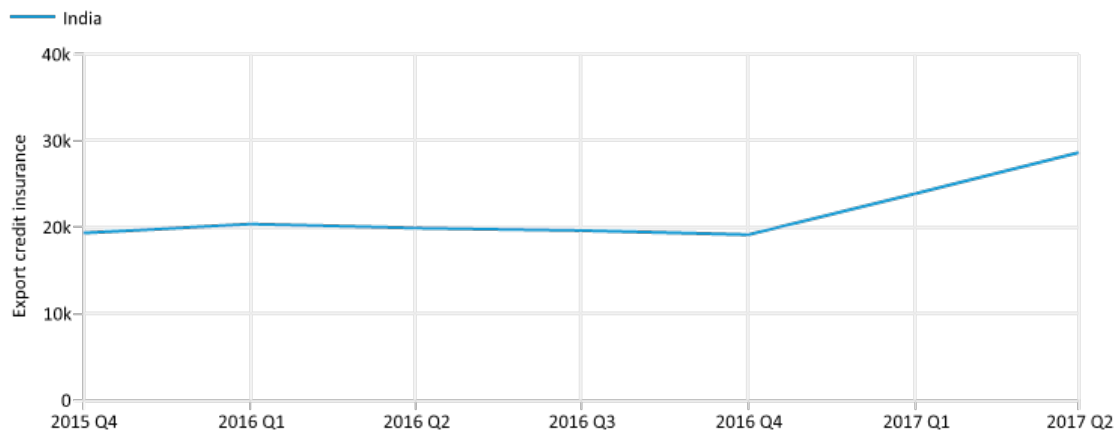
Exchange Rate
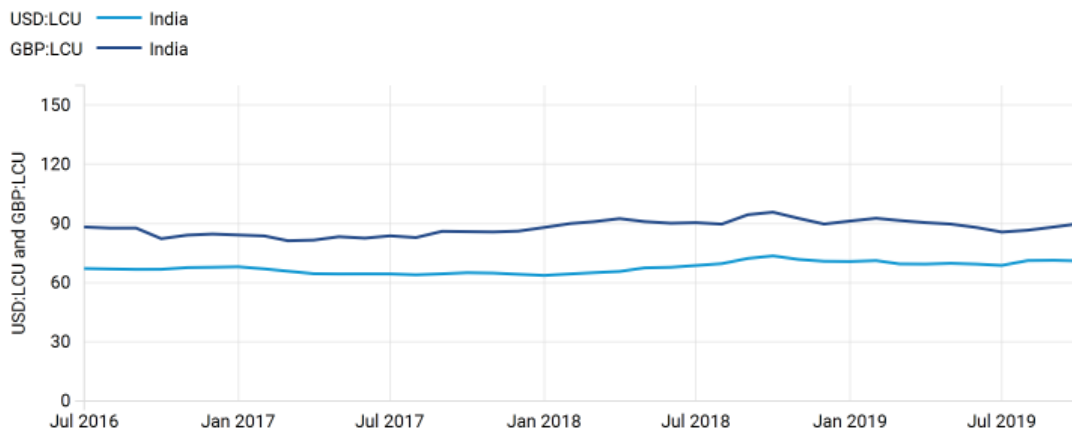
Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions

Source: Export Credit Agencies

Short-term insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Outlook trend remains at 'deteriorating rapidly'

India's rate of GDP growth has decelerated steadily from 8.0% in Q2 2018 to 4.5% in Q3 2019. Optimism levels of businesses and consumers have fallen despite the government initiating a spate of measures. Demand across private consumption expenditure, government expenditure, investment, and net exports remains impaired. The pressure on the government to intervene further over the slowdown has thus increased even as government finances remain strained. We expect that the drop in the government's revenue mobilisation, owing to below-target collection in taxes and the likelihood of additional government expenditure, will lead to breach in the fiscal deficit target by a wider margin in fiscal (April-March) 2020/21. In any case, most of the prevalent macroeconomic imbalances do not have any short-term solutions, even as the conundrum of soaring domestic stock market indices in India, slowing growth, rising inflation, and elevated unemployment presents a complex challenge for policymakers to address.

Transfer Risk

Further financial system capital adequacy deterioration in 2019

Strains on financial institutions' liquidity and solvency are still not great enough to increase transfer risks and merit CLC terms for shipments to India. However, non-bank institutions' finances have deteriorated since the failure of non-bank lender IL&FS in 2018 and housing finance company DHFL in 2019. Non-bank lending has slowed in line with funding and rural demand. Urban co-operative banks also witnessed a rapid worsening in their capital adequacy and gross bad asset ratios. The former declined from 13.5% in March to 9.8% in September and the latter rose from 6.4% to 10.5%.

The risk is of a new wave of bad loans arising from telecommunications, power companies, property developers, small firms, and non-bank lenders in 2020-21, just when the bulk of previous wave of bad loans from upstream industrial firms had finally been provisioned for. The RBI December *Financial Stability Report* forecast that, depending on the scenario, three to five banks would see capital fall below regulatory minima by September 2020. However, bank-level analysis showed that a larger number, including 16 of 19 state-owned banks, would see capital to risk-weighted asset ratios fall below a 9% minimum if non-performing assets rose two standard deviations. We cannot exclude a more adverse scenario given the deceleration in economic growth, new sources of credit risk and hard-to-model default and sentiment contagion paths.

Political/Insecurity Risk

Mass protests nationally as citizenship bill unites anti-Modi opposition

Passage of the citizenship amendment bill through both houses of parliament in December galvanised a wave of opposition from campuses, secularists and Muslim minorities. The increase in civil disorder as mass protests were greeted with tough internal security measures was evident in several states, including India's largest, Uttar Pradesh, where media frequency analytics showed both civil disorder incident news and state security news items were far more widespread than during the previous wave of civil disorder in the state in 2013. The new legislation, by granting privileged naturalisation rights to immigrants from six religious minorities from three neighbouring countries but excluding Muslims, was seen as a vehicle for future disenfranchisement of India's approximately 200m Muslim citizens, coming after the abolition of constitutional autonomy in Kashmir (in August) and November's Supreme Court ruling on the site of the mosque razed by Hindu activists in 1992. However, the legislation also provoked anti-immigration protests in Assam state in northeast India, because it will enfranchise stateless Hindus. The episode has not materially affected India's overall country risk yet, but illustrates the direction of travel now the ruling coalition has the biggest parliamentary majority in its history and the political opposition is fragmented.

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)	1,350.2
GDP (USD billions)	2,882.4
GDP per capita (USD)	2,135
Life expectancy (years)	69.0
Literacy (% of adult pop.)	74.4
Surface area (sq km)	3,287,260

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	8.0	8.2	7.2	6.8	5.0
Nominal GDP in USDbn	2,104	2,290	2,652	2,719	2,882
Nominal GDP in local currency (bn)	137,719	153,624	170,950	190,102	203,500
GDP per Capita in USD	1,640	1,763	2,015	2,040	2,135
Population (year-end, m)	1,283.0	1,299.0	1,316.0	1,333.0	1,350.2
Exchange rate (yr avge, USD-LCU)	65.5	67.1	64.5	69.9	70.6
Current Account in USDbn	-22.1	-15.2	-48.7	-57.2	-50.0
Current Account (% of GDP)	-1.1	-0.7	-1.8	-2.1	-1.7
FX reserves (year-end, USDbn)	333.1	340.3	388.7	373.9	385.0
Import Cover (months)	8.3	8.4	8.0	7.0	7.6
Inflation (annual avge, %)	4.9	4.5	3.6	3.4	3.6
Govt Balance (% GDP)	-3.9	-3.7	-3.5	-3.5	-4.0

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	6.3	7.3	7.0	6.9	6.9
Nominal GDP in USDbn	3,018	3,315	3,724	3,880	4,200
Nominal GDP in local currency (bn)	220,000	243,000	270,000	291,000	315,000
GDP per Capita in USD	2,207	2,393	2,654	2,730	2,918
Population (year-end, m)	1,367.6	1,385.2	1,403.1	1,421.2	1,439.5
Exchange rate (yr avge, USD-LCU)	72.9	73.3	72.5	75.0	75.0
Current Account in USDbn	-53.5	-47.8	-60.0	-51.0	-66.0
Current Account (% of GDP)	-1.8	-1.4	-1.6	-1.3	-1.6
FX reserves (year-end, USDbn)	380.0	400.0	415.0	398.0	398.0
Import Cover (months)	7.7	8.0	8.0	7.4	7.2
Inflation (annual avge, %)	4.4	5.3	4.5	4.5	4.5
Govt Balance (% GDP)	-3.9	-3.7	-4.0	-4.0	-4.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,207	8,776	9,929	12,783	67,339
Country Population (m)	1,367.6	211.4	1,439.3	145.9	331.0
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2020 - 2029)	6.0 - 8.0	1.0 - 2.0	4.5 - 6.5	1.5 - 3.0	1.8 - 2.5

Source: Various sources/Dun & Bradstreet

LINKS

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Please click here to visit our online user guide.

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