

# Country Insight Snapshot

## India

March 2021





## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB5b

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



**Rating Outlook:** Stable

## 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 development 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 confirms that rising Covid-19 cases bring 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

Supply chains are likely to remain resilient despite the reappearance of localised Covid-19 outbreaks in six states accounting for almost half of all active businesses.

## CREDIT ENVIRONMENT OUTLOOK



**Trend:** Stable

Key Development has had a negative impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a negative impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a neutral impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK



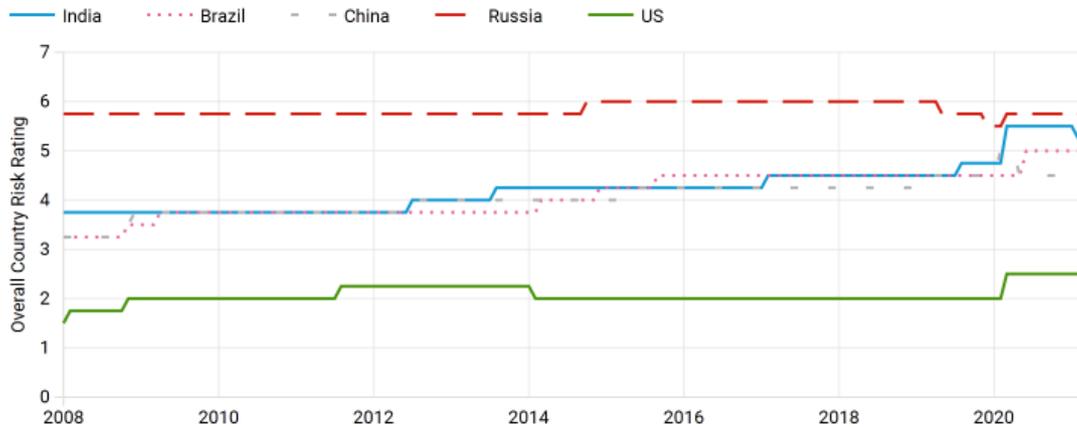
**Trend:** Stable

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

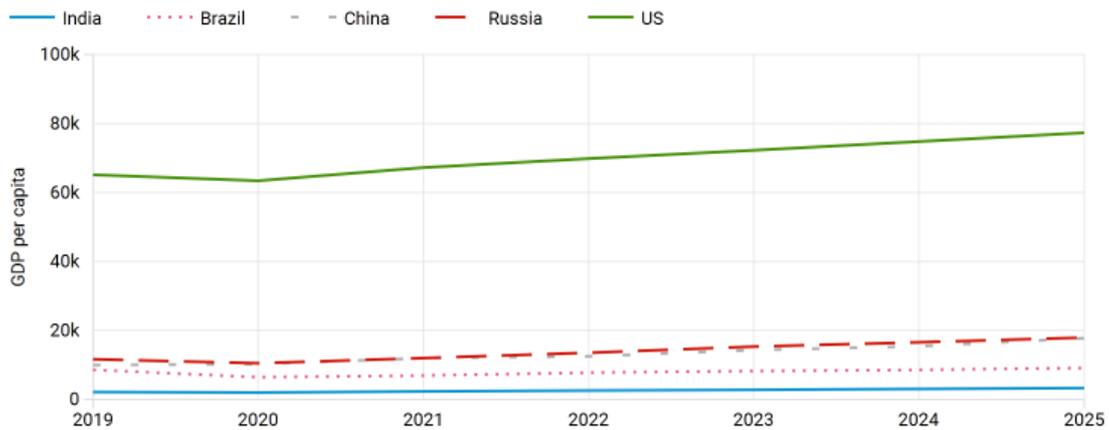
### Rating History and Comparison



Source: Dun & Bradstreet

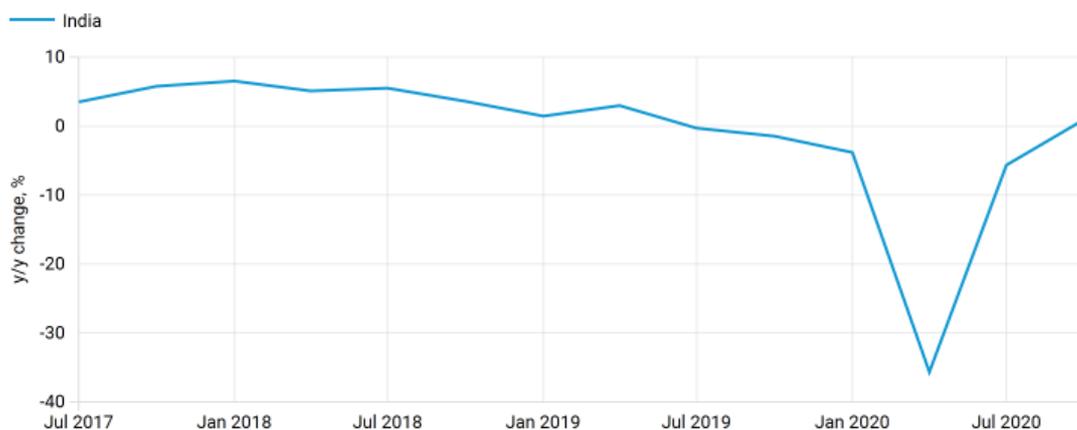
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2018	2019	2020e	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-2.1	-0.9	0.8	-1.1	-1.6	-1.3	-1.6	-1.1
Debt Service Ratio, %	6.4	6.5	7.5	7.3	8.0	8.5	9.0	8.5
Govt balance, % GDP	-3.4	-4.6	-9.5	-6.8	-5.3	-5.0	-4.8	-5.2
Inflation, annual avge %	3.4	4.8	6.3	5.4	5.0	4.0	4.5	4.0
Real GDP Growth, %	6.5	4.0	-8.0	9.9	6.9	6.5	6.0	5.5

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Dun & Bradstreet's Business Optimism Index, which surveys the optimism level of all size of businesses and has a track record of predicting real GDP growth three months ahead, turned positive for Q1 2021, after recording negative growth throughout 2020. Most businesses remain optimistic as overall demand is expected to improve. The optimism also emanates from the fact that the operating profits of listed firms grew 25.4% and 31.1%, y/y, after interest and tax in Q4, after staff cost growth at 2.7% y/y advanced considerably less than CPI inflation. Bank credit growth also accelerated in the fortnight ending February 12, to 6.5% y/y, from 5.9% at the last reading for January. However, the variation in credit growth from sector to sector and between firmographics is considerable. We advise minimum LC terms but are aware that terms are often more liberal at OA and SD for known risks.

In its baseline scenario, Reserve Bank of India forecast a rise in non-performing loan rates from 7.1% in September 2020 to 13.5% in September 2021. The 2021 budget strengthens debt-collection mechanisms governing recoveries from failed MSMEs.

## 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

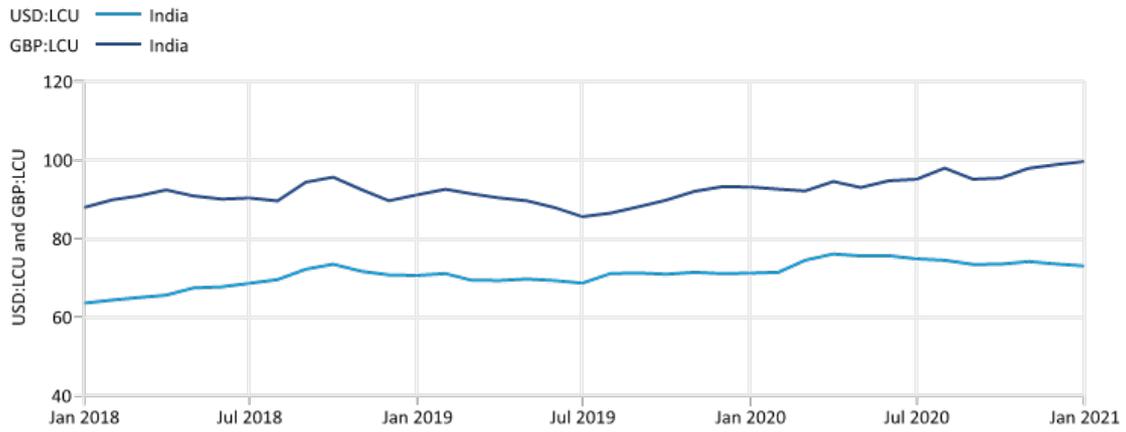
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



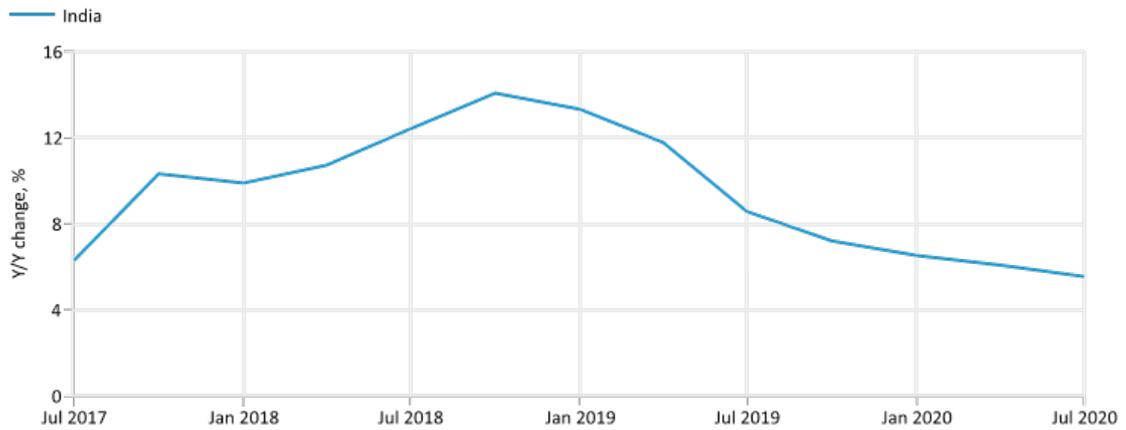
## Exchange Rate



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

### Business Continuity

#### *Localised outbreaks threaten limited 'second wave' but supply chains likely to remain resilient*

Dun & Bradstreet is maintaining a 'stable' rating outlook trend for India despite the reappearance of multiple, localised Covid-19 outbreaks in Maharashtra, Tamil Nadu, Kerala, Punjab, Karnataka and Gujarat, six states that account for 29% of India's population, according to India's digital identity authority, but 47% of active businesses, according to Dun & Bradstreet. Over 60% of new cases were in two states, Maharashtra and Kerala. New restrictions have generally stopped short of lockdowns closing any non-essential businesses except in heavily-affected wards, with curfews, staggered hours and restrictions on social, political and religious gatherings usually the first resort.

It is still likely that second wave dynamics will remain more circumscribed in India than in Europe and the Americas, for the same reasons that enabled the first wave to abate even as the economy re-opened in 2020, and that saw the Covid-19 case fatality rate fall to 0.7% in February, against a global pandemic average of 2.2%. Vaccinations at over 20m as of early March may not have any decisive, or immediate impact, but India's home-grown vaccine manufacturing and its spare capacity it can export are a positive risk factor, even if it will take until late 2021 to achieve the first target of 300m inoculations.

However, according to the Oxford University Covid-19 government response stringency index, India only transitioned from a full to a partial requirement for schools to close in the last week of February, meaning that the epidemic environment in March is in theory riskier than in 2020. Meanwhile, the effect of the US Defence Act invocation curbing vaccine material exports, on local vaccine production in 2021 remains unclear, but it might not be negligible.

Overall, manufacturing, construction and agriculture can expect unimpeded supply chains inside India in 2021 and is our central scenario for business continuity risks. Electronic way-bills used for the movement of goods by VAT-registered traders reached 64.2m in December 2020, the highest in more than 30 months. Railway freight picked up pace and reached an all-time high of 119.8m tons in January 2021. However, qualifying this picture, container shortages at India's ports remain acute. Shipments from India to Dubai or Southeast Asia may take at least twice as long and sugar exports were less than half the year-ago level in volume terms in January as a result of container shortages.

### Short-Term Economic Outlook

#### *Core inflation remains high*

We think that India will still touch on double-digit real GDP growth in the 2021/22 fiscal (April-March) year and at almost 16% growth in nominal terms. Our -8.0% contraction forecast for the 2020/21 fiscal year implies a slight y/y contraction in the current quarter, allowing a degree of room for localised Covid-19 setbacks in major metro areas.

The 0.4% y/y expansion in real GDP in Q4 was highly encouraging. However, without inventory growth it would have been a contraction, and the statistics ministry admitted that revisions are inevitable due to anti-epidemic measures impeding data collection. The Q4 estimate was also heavily dependent on public company financials, unlikely to be a good guide to the experiences of India's SMEs in 2020. Private consumption fell 2.4% in real terms y/y in Q4, and the mining and trade/hospitality/transportation sectors by 6.0% and 7.7%, so these segments remained shocked even as the economy re-opened.

An easing of food prices and base effects helped CPI inflation to moderate to 4.6% in December 2020 and further to 4.1% in January 2021 after remaining above the upper tolerance threshold level of 6% for eight consecutive months (April-November 2020). However, core inflation remains stubbornly high and India is exposed to further increases in oil prices, as the renewed OPEC+ agreement makes likely, resulting in its energy minister warning of the consequences of supply restrictions for net oil importers in March.



## 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)	1,346.3
GDP (USD billions)	2,656.1
GDP per capita (USD)	1,973
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	2020e
Real GDP growth (%)	8.3	6.8	6.5	4.0	-8.0
Nominal GDP in USDbn	2,295	2,651	2,701	2,871	2,656
Nominal GDP in local currency (bn)	153,917	170,900	188,870	203,510	197,228
GDP per Capita in USD	1,767	2,024	2,028	2,142	1,973
Population (year-end, m)	1,299.0	1,310.0	1,332.0	1,340.0	1,346.3
Exchange rate (yr avge, USD-LCU)	67.1	64.5	69.9	70.9	74.3
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	544.1
Import Cover (months)	8.4	8.0	7.0	8.6	13.8
Inflation (annual avge, %)	4.5	3.6	3.4	4.8	6.3
Govt Balance (% GDP)	-3.5	-3.5	-3.4	-4.6	-9.5

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	9.9	6.9	6.5	6.0	5.5
Nominal GDP in USDbn	3,151	3,508	3,787	4,195	4,603
Nominal GDP in local currency (bn)	228,459	256,433	284,025	314,615	345,196
GDP per Capita in USD	2,331	2,583	2,760	3,042	3,318
Population (year-end, m)	1,351.6	1,358.3	1,371.9	1,378.8	1,387.1
Exchange rate (yr avge, USD-LCU)	72.5	73.1	75.0	75.0	75.0
Current Account in USDbn	-36.0	-57.0	-51.0	-66.0	-51.0
Current Account (% of GDP)	-1.1	-1.6	-1.3	-1.6	-1.1
FX reserves (year-end, USDbn)	580.0	415.0	398.0	398.0	398.0
Import Cover (months)	13.3	8.0	7.4	7.2	7.4
Inflation (annual avge, %)	5.4	5.0	4.0	4.5	4.0
Govt Balance (% GDP)	-6.8	-5.3	-5.0	-4.8	-5.2

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,331	6,928	11,973	11,993	67,239
Country Population (m)	1,351.6	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



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