

Country Insight Snapshot

India

October 2018





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

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

A

Rating Outlook:

Stable



CORE OUTLOOK

- + India will ultimately benefit from a multi-year period of digitisation of transactions, more formal banking, and financial deepening.
- + India's 264m-strong population of 15-25-year-olds will provide a powerful demographic dividend in the next decade, providing they can find sufficient employment.
- High business costs reflect chronic supply-side problems and can outweigh the advantages of an early-stage market, while infrastructure plans still lag requirements.
- 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 rapidly.

KEY DEVELOPMENT

Q2 real GDP growth was rapid, but the pace may not be sustainable amid rising loan rates, financial system strains and higher energy prices.

CREDIT ENVIRONMENT OUTLOOK

A

Trend:

Deteriorating



Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend:

Improving



Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend:

Stable



Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

Trend:

Stable

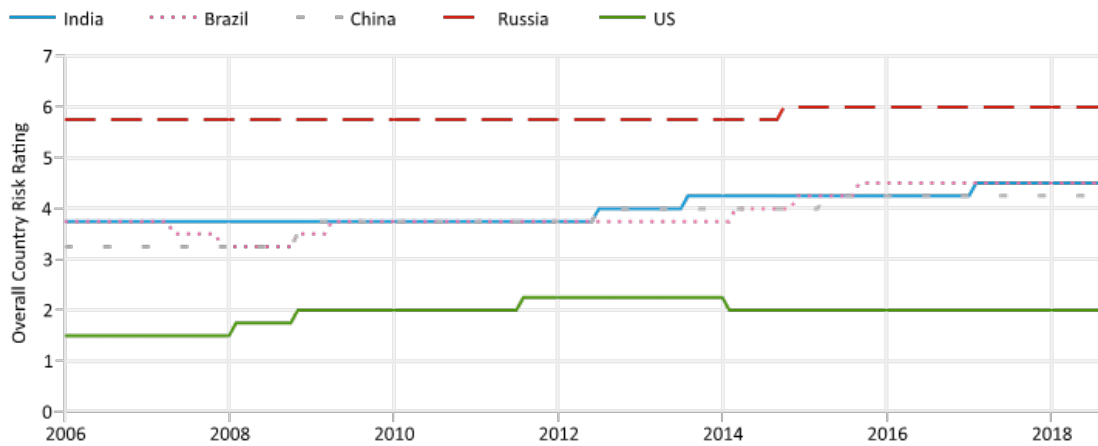


Key Development has had a neutral impact on the outlook.



KEY INDICATORS

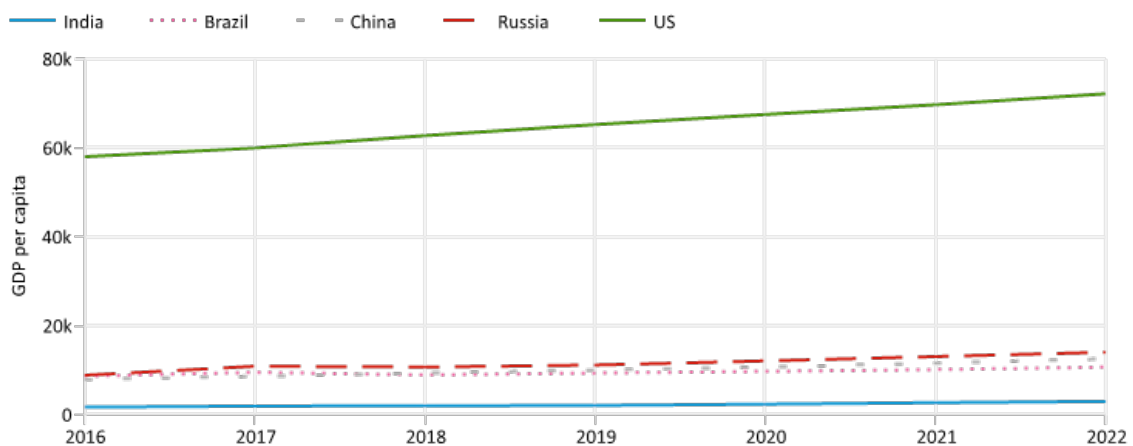
Rating History and Comparison



Source : Dun & Bradstreet

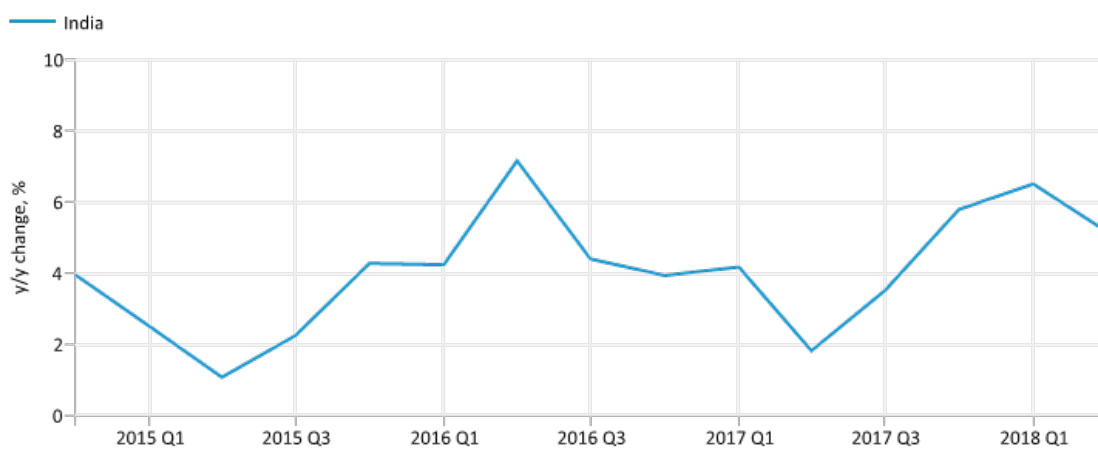
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-1.1	-0.7	-1.9	-2.7	-2.2	-1.8	-1.2	-1.8
Debt Service Ratio, %	8.8	8.3	7.5	9.3	9.0	8.3	8.5	9.0
Govt balance, % GDP	-3.9	-3.7	-3.5	-3.4	-3.6	-3.3	-3.3	-4.0
Inflation, annual avge %	4.9	4.5	3.6	4.9	5.2	5.5	5.5	4.5
Real GDP Growth, %	8.2	7.1	6.7	7.4	7.7	8.0	8.1	7.3

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The serial defaults of Infrastructure Leasing & Financial Services (IL&FS), a major non-bank infrastructure financing and construction firm, sent shock waves through the financial sector in Q3. IL&FS, like many in the top ranks of India's close to 11,400 'shadow' (non-bank) lenders, enjoyed an AAA-rating locally. Their investment grades have become questionable and others are likely to erode following IL&FS' debt downgrade to junk status. IL&FS, operating in an infrastructure sector facing considerable distress, owes INR910bn (USD13bn), approximately 3.6% of the non-bank lending sector's liabilities, or 1.0% of overall bank liabilities: the shadow lenders' borrowings from commercial banks, including state-owned commercial banks, mean their failures could further burden banks' balance sheets. The fact that India's the Reserve Bank of India, from the start of Q4, has boosted liquidity by easing cash requirements for banks, indicates the authorities are anxious to avert contagion into the banking sector.

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

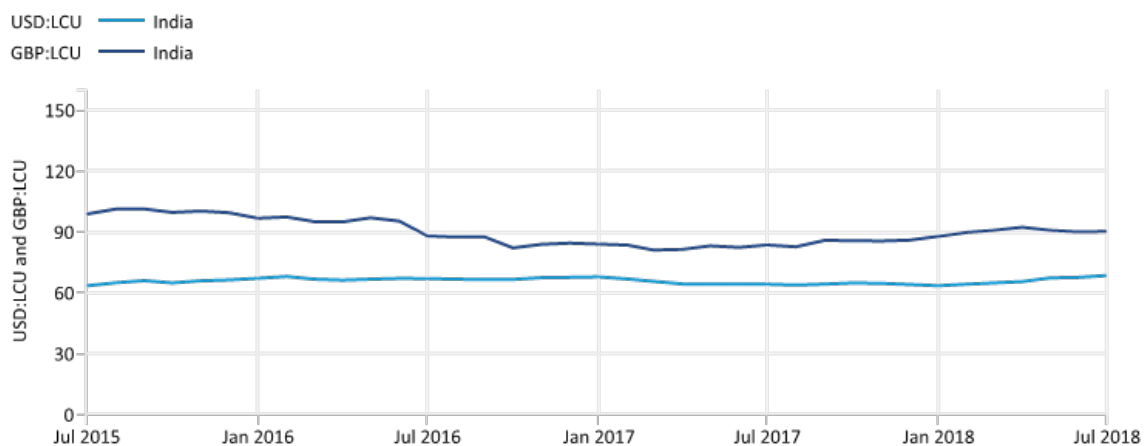
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

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.



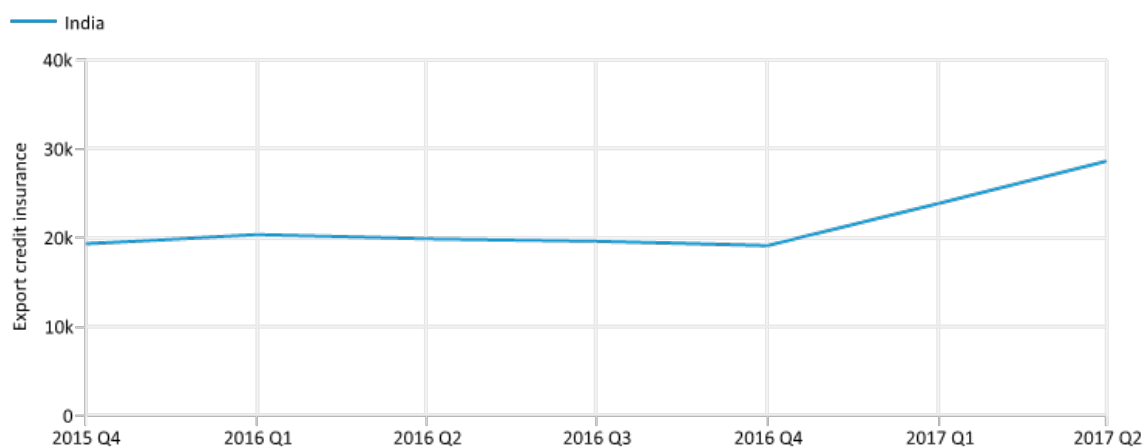
Exchange Rate



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

Doubts that 8%+ growth will be sustained

Q2 2018 real GDP growth surprised on the upside, surpassing forecasts to reach a nine-quarter high of 8.2% y/y, and putting India among the world's fastest-growing economies. Private consumption expenditure grew robustly by 8.6% y/y and imports also grew strongly, by 12.7% y/y (both in price-adjusted terms). The buoyancy in consumption growth could have been largely driven by the Seventh Pay Commission payout for civil servants and be transient. A rapid growth in consumer credit has also been key and may not be sustainable as the rural economy continues to require emergency policy support and interest rates edge up. In another concern, the consumption-driven growth pattern is also adding to widening of current account deficit, which widened to 2.4% of GDP in Q2 from 1.8% of GDP in Q1 as the non-oil and non-bullion deficit sharply increased.

Sectorally, agriculture and manufacturing drove growth in Q2, although output growth varied widely between different sectors in manufacturing. However, it is also unclear how sustainable the Q2 performance is. Farmers' dependence on minimum support price policies for staple crops and periodic gluts in other crops will limit rural demand, after a fairly plentiful (if uneven) monsoon. New insurance criteria put in place in 2018 could also reduce automotive sector and two-wheeler demand, while the healthcare sector faces price caps. A broad range of sectors will also eventually see profit curbs and price pressures from rising international fuel prices, which US sanctions on Iran, a key Indian supplier, will exacerbate from mid-Q4.

Transfer Risk

Banking system pressures

Domestically, the major risk to growth stems from the pile-up of bad loans in the banking system; there are no signs of early resolution. This will be a major drag on growth as businesses are impacted by high borrowing costs and a slowdown in credit fund flows. Bank lending to industries remains muted in the domestic market. Following the RBI's two policy rate hikes in Q1-Q3 2018, bank lending rates have started moving up. In addition to the high input costs that corporates were facing, borrowing costs have edged up in the recent period. The median marginal cost of funds based lending rate (MCLR), the minimum interest rate for any commercial bank, below which it cannot lend, by September had grown to the highest level since Q2 2017. Bond yields have increased sharply and the average call money rates (interbank lending rates) are the highest since Q4 2016.

Corporates sourcing funds from global markets are facing higher lending rates and global liquidity remains tightened. The six-month and 12-month US LIBOR rates were also at their highest since 2008 levels as Q3 closed. Rupee depreciation past INR70:USD has also increased the hedging costs and made repayments for dollar loans costlier. With bank credit to industries growing at an average of 1.0% since Q4 2017 and credit to exporters growing negatively for 16 consecutive months, the funding scenario looks grim. The pressures in the non-bank finance sector evident since September add to concerns about the financial system.



COUNTRY PROFILE AND STATISTICS

Overview

With close to 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 diverse economy encompasses village farming, modern agriculture, handicrafts, modern industries, and services (the most dynamic sector and worth 60% 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, a second generation of reform is under way. Realising India's potential in the next ten years will require the addressing of major challenges, including chronic infrastructure constraints, restrictions on changes in land use, endemic poverty, an inefficient bureaucracy, and corruption. Other factors to overcome include chronic tax evasion, the legacy of inefficient national tax structures, insurgencies in the northeast, the ever-fragile *detente* with Pakistan, dependence on the erratic monsoon, and the dynamics of communal and sectarian tensions. The key moves towards bringing more transactions into the formal economy and the digitisation of business 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)	1,316.0
GDP (USD billions)	2,602.3
GDP per capita (USD)	1,977
Life expectancy (years)	68.1
Literacy (% of adult pop.)	72.2
Surface area (sq km)	3,287,260

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	6.4	7.4	8.2	7.1	6.7
Nominal GDP in USDbn	1,857	2,039	2,102	2,274	2,602
Nominal GDP in local currency (bn)	112,335	124,680	137,640	152,537	167,732
GDP per Capita in USD	1,484	1,609	1,639	1,751	1,977
Population (year-end, m)	1,251.0	1,267.0	1,283.0	1,299.0	1,316.0
Exchange rate (yr avge, USD-LCU)	60.5	61.1	65.5	67.1	64.5
Current Account in USDbn	-32.4	-26.7	-22.1	-15.2	-48.7
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.7	-1.9
FX reserves (year-end, USDbn)	274.2	301.3	333.1	340.3	388.7
Import Cover (months)	6.0	6.7	8.3	8.4	8.0
Inflation (annual avge, %)	9.4	5.8	4.9	4.5	3.6
Govt Balance (% GDP)	-4.5	-4.0	-3.9	-3.7	-3.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	7.4	7.7	8.0	8.1	7.3
Nominal GDP in USDbn	2,738	2,886	3,312	3,799	4,282
Nominal GDP in local currency (bn)	188,069	212,706	241,103	273,531	303,619
GDP per Capita in USD	2,054	2,138	2,422	2,743	3,052
Population (year-end, m)	1,333.0	1,350.2	1,367.6	1,385.2	1,403.1
Exchange rate (yr avge, USD-LCU)	68.7	73.7	72.8	72.0	70.9
Current Account in USDbn	-75.0	-64.0	-60.0	-44.3	-75.0
Current Account (% of GDP)	-2.7	-2.2	-1.8	-1.2	-1.8
FX reserves (year-end, USDbn)	368.0	365.0	380.0	400.0	415.0
Import Cover (months)	7.1	7.3	7.1	7.0	6.6
Inflation (annual avge, %)	4.9	5.2	5.5	5.5	4.5
Govt Balance (% GDP)	-3.4	-3.6	-3.3	-3.3	-4.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,054	8,979	9,395	10,777	62,824
Country Population (m)	1,333.0	209.2	1,415.0	144.0	326.8
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2018 - 2027)	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

User Guide

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