

Country Insight Snapshot

India

December 2016



Written 16 December 2016

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

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

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

+ India will ultimately benefit from a multi-year period of lower commodity prices, productivity reforms, 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, and infrastructure plans lag requirements.

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

KEY DEVELOPMENT

Dun & Bradstreet downgrades its rating outlook for India, due to the demonetisation of rupee banknotes, and its far-reaching impact on supply chains and demand.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

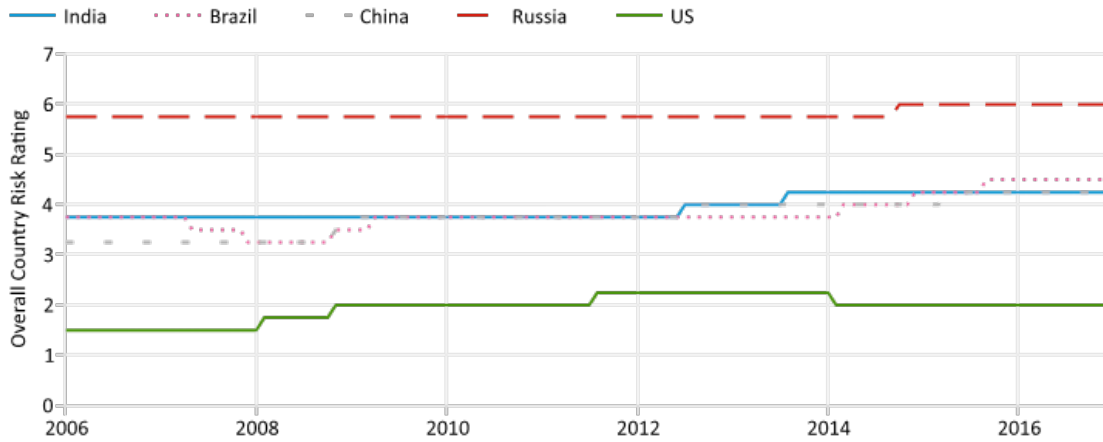
Trend: Stable 

Key Development has had a negative impact on the outlook.



KEY INDICATORS

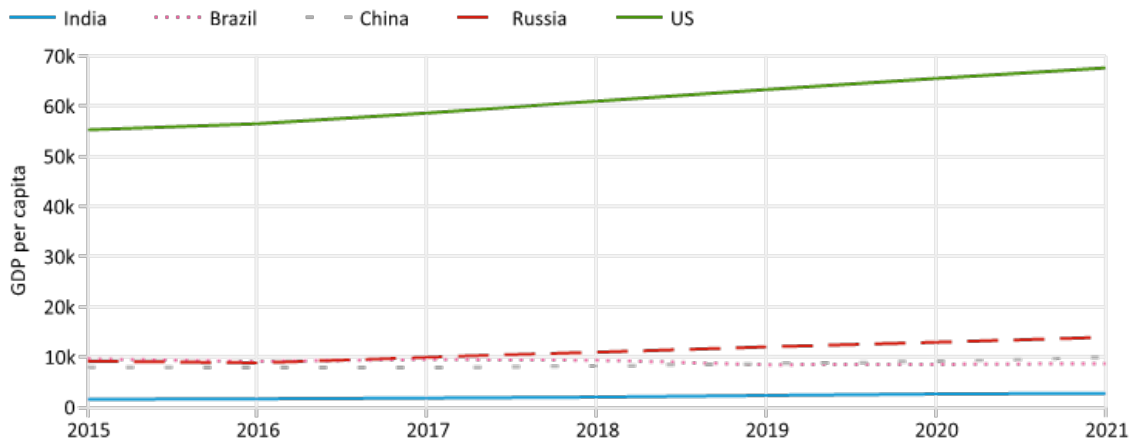
Rating History and Comparison



Source : Dun & Bradstreet

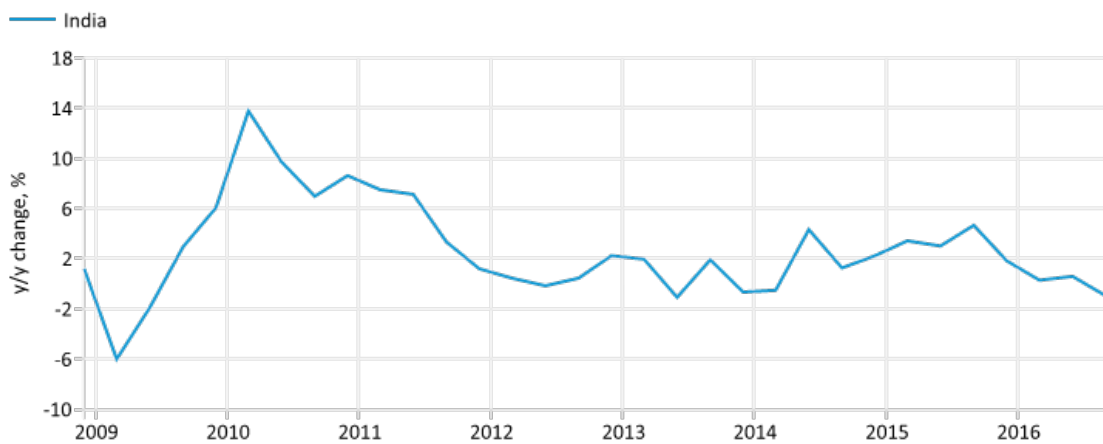
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016f	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.3	-1.1	-0.4	-0.6	-1.1	-1.4	-1.4	-0.8
Debt Service Ratio, %	7.6	8.8	8.0	7.9	7.3	8.0	8.3	8.5
Govt balance, % GDP	-4.0	-3.9	-3.7	-3.4	-3.0	-3.5	-3.3	-3.3
Inflation, annual avge %	5.9	4.9	4.6	5.6	6.0	6.5	5.5	7.5
Real GDP Growth, %	7.2	7.6	7.0	7.5	8.0	8.0	8.0	7.2

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In India, much of the informal sector engages only in cash transactions, especially in poor, rural, under-banked areas. Consumption is getting severely impacted owing to restrictions on cash withdrawal, and the slow pace of supplying the new INR2,000 banknotes. The demand shock is evident in sectors with a high proportion of cash transactions such as agriculture, real estate, retail, hotels, restaurants, consumer durables (such as mobile handsets), jewellery and luxury brands. However, the shock to industrial supply chains is also spreading as workers in sectors from shipbreaking to construction to myriad small workshops go unpaid, or return home to deposit savings. The real estate sector, which contributes significantly to India's GDP, was already under pressure due to high interest rates and slow economic growth. The demonetisation and consequent reduction in the shadow economy, will be a further blow to the sector, given the extent of cash transactions.

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

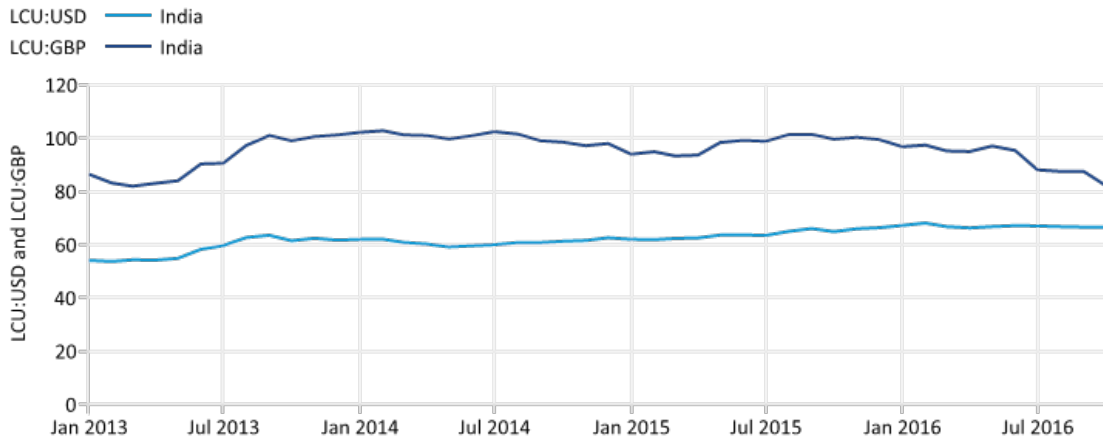
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



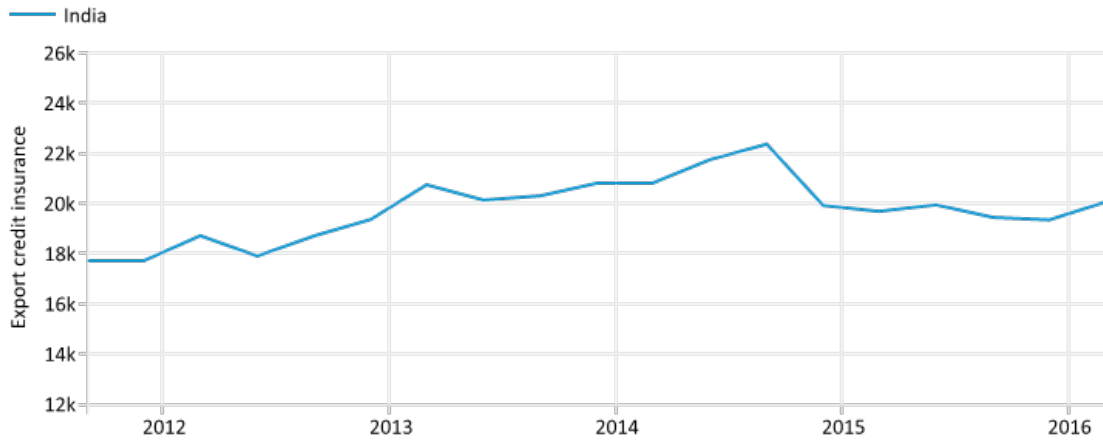
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, short-term, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economy shocked by demonetisation

In the wake of the government's shock demonetisation move in November, which withdrew over 85% of cash in circulation, we have shifted India's overall country risk trend from 'improving' to 'deteriorating'. The uncertainty premium remains high, because if the government and Reserve Bank of India cannot supply adequate new banknotes via the banking system by the first half of January, the political consequences for civil order and the ruling party's hold on the political process could be disruptive and substantial.

Contrary to our earlier expectation, we anticipate India's growth to be 0.5 percentage points lower for fiscal 2016-17, given the effects of the demonetisation, as the government withdrew all INR1,000 (approximately USD15) and INR500 notes in November. Touted as one of the largest initiatives of the government to move towards a transparent and cashless economy, this has undoubtedly severely impacted general cash market transactions. On average, we expect India's gross value added (a close proxy for GDP) to print at 7.0% for fiscal (April-March) 2016/17 in official statistics, although later downward revisions of the figure by the government are quite feasible. India's GVA growth had already turned out lower than expected at 7.1% y/y in Q3 2016, on account of an extended slowdown in industrial activity. Weak demand conditions and the firming up of input costs had impacted business profitability, and gross fixed capital formation had contracted for a third consecutive quarter.

CPI inflation is projected to stay well below 6.0% as targeted by RBI into 2017. Both the retail (CPI) and wholesale (WPI) price inflation eased further in November 2016 as the squeeze in cash availability knocked down prices of perishable commodities across rural India, when farmers became increasingly desperate for income, albeit with the impact varying by state. However, core CPI inflation remained flat in November, while core WPI inflation edged up. Higher global commodity and crude oil prices - reflecting the OPEC decision and its avowed support by non-OPEC members - and the depreciation pressure on rupee, given the US Fed rate hike, have raised the prospect of India's policy rates actually rising in 2017.

FX Risk

Non-resident deposits mature, hitting spot market

In 2013, as the Fed 'taper tantrum' weighed on the rupee, the RBI mobilised fresh foreign currency deposits to stabilise the FX market. Of the total USD34bn raised, approximately USD26bn in FCNR (B) deposits (collected by the RBI and swapped with the banks using FX buy/sell swaps on corresponding maturities), have finally matured in September-November 2016 period. That has created volatility in the FX spot market separately from the dislocation of the demonetisation push. To prepare, the central bank has been buying dollars in the forward market and has built up record FX reserves. The rupee has also remained under pressure from international political and economic factors, including shifting expectations around US Federal Reserve decisions.



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). Until the 1990s, the economy was held back by stringent state controls, but these have been liberalised considerably, and in the 2000s the economy grew on average by over 7% a year. However, realising India's potential in the 2016-25 period will require addressing major challenges from chronic infrastructure constraints, restrictions on changes in land use, endemic poverty, an inefficient bureaucracy and corruption, as well as overcoming political factors such as insurgencies in the northeast and the threat of communal violence.

Key Facts

Key Fact	Detail
Head of state	President Pranab MUKHERJEE
Capital	New Delhi
Timezone	GMT +05-30
Official languages	Hindi, English
Population (millions)	1,283
GDP (USD billions)	2,073.7
GDP per capita (USD)	1,616
Life expectancy (years)	67
Literacy (% of adult pop.)	69.3
Surface area (sq km)	3,287,260

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016f
Real GDP growth (%)	5.6	6.6	7.2	7.6	7.0
Nominal GDP in USDbn	1,829	1,863	2,042	2,074	2,236
Nominal GDP in local currency (bn)	99,513	112,728	124,882	135,761	152,052
GDP per Capita in USD	1,481	1,489	1,612	1,616	1,724
Population (year-end, m)	1,235.0	1,251.0	1,267.0	1,283.0	1,297.1
Exchange rate (yr avge, USD-LCU)	54.41	60.5	61.14	65.47	68.0
Current Account in USDbn	-87.8	-32.4	-26.7	-22.1	-8.4
Current Account (% of GDP)	-4.8	-1.7	-1.3	-1.1	-0.4
FX reserves (year-end, USDbn)	268.8	275.1	300.7	334.5	344.0
Import Cover (months)	5.5	6.1	6.6	8.3	9.2
Inflation (annual avge, %)	9.9	9.4	5.9	4.9	4.6
Govt Balance (% GDP)	-4.9	-4.5	-4.0	-3.9	-3.7

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	7.5	8.0	8.0	8.0	7.2
Nominal GDP in USDbn	2,461	2,737	3,195	3,625	3,836
Nominal GDP in local currency (bn)	171,059	191,586	214,097	239,254	263,179
GDP per Capita in USD	1,880	2,069	2,392	2,687	2,816
Population (year-end, m)	1,309.4	1,322.5	1,335.8	1,349.1	1,362.6
Exchange rate (yr avge, USD-LCU)	69.5	70.0	67.0	66.0	68.6
Current Account in USDbn	-15.0	-29.0	-45.0	-50.0	-30.0
Current Account (% of GDP)	-0.6	-1.1	-1.4	-1.4	-0.8
FX reserves (year-end, USDbn)	339.4	353.2	363.3	374.3	365.0
Import Cover (months)	8.4	8.3	8.4	8.4	8.4
Inflation (annual avge, %)	5.6	6.0	6.5	5.5	7.5
Govt Balance (% GDP)	-3.4	-3.0	-3.5	-3.3	-3.3

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	1,616	9,717	8,000	9,233	55,326
Country Population (m)	1,283	208.8	1,376	143.5	321.8
Internet users (% of population)	26	59.1	50.3	73.4	74.5
Real GDP Growth (% p.a., 2017 - 2026)	6 - 8	1 - 2	3.5 - 6.5	1.5 - 3	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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