



Decide with Confidence

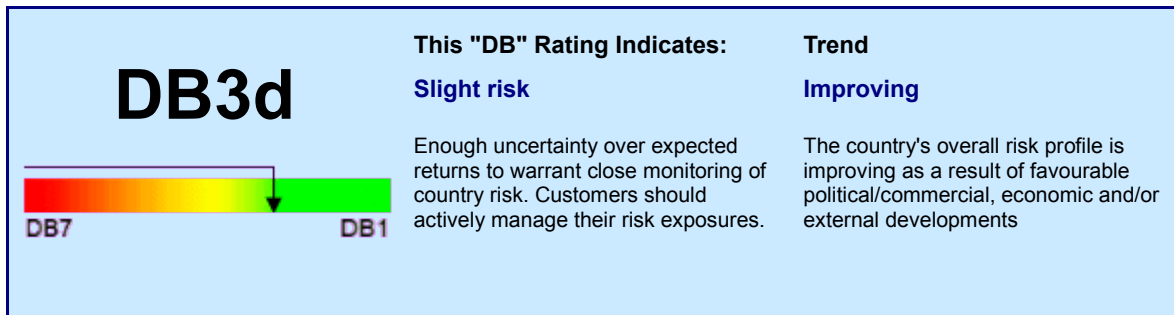
## D&B Country RiskLine Report

# INDIA

Region : Asia Pacific

Edition : February 2010

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	1.1bn
<b>Surface area (sq km):</b>	3,287,260
<b>Capital:</b>	New Delhi
<b>Timezone:</b>	GMT +05:30
<b>Population density:</b>	368 per sq. km
<b>Head of state:</b>	President Pratibha PATIL
<b>GDP (USD):</b>	1.13trn
<b>GDP per capita (USD):</b>	972
<b>Life expectancy (years):</b>	64
<b>Literacy (% of adult pop.):</b>	61.0

### Country Overview:

With over 1bn 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; 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 early 1990s, the economy was held back by stringent state controls. These have been liberalised considerably; and, since 2000 the economy has grown on average by over 7% a year. India faces major challenges from chronic infrastructure constraints, endemic poverty, an inefficient bureaucracy, corruption, ethnic and left-wing insurgencies, and occasional politically-charged communal violence.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	LC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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D&B'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.

<b>Usual Terms:</b>	30-90 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-2 months
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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.

### Trade & Commercial Environment

According to D&B's latest proprietary cross-border payments performance data, Indian-based firms made 29.1% of payments 30 or more days over terms in the 12 months ending September 2009. Meanwhile, 64.4% of the payments were prompt; 15.7% were 60 or more days over terms; and, 1.2% were severely delinquent with a delay of 120 days or longer. This payments performance profile is an improvement from earlier in the year. Nevertheless, D&B continues to recommend the use of LC terms. Although the import-export sector strengthened in late 2009, a number of segments remain weak. In December, the government unveiled new incentives for about 2,000 struggling export lines (including a number of engineering, electronics and chemicals products).

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

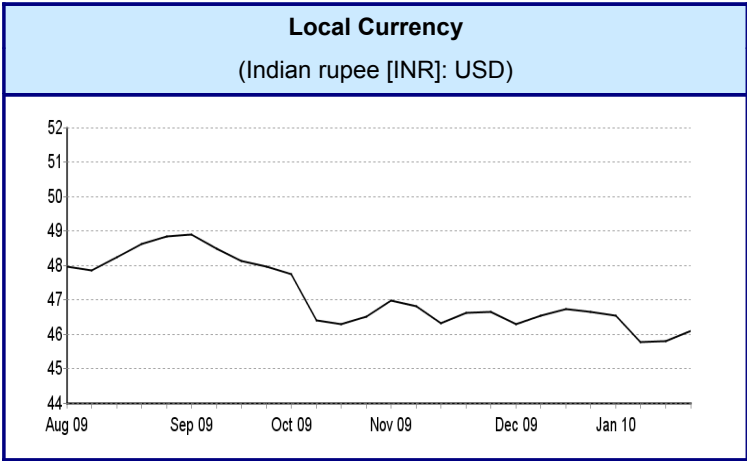
### Economic Indicators

	2007	2008	2009f	2010f	2011f
<b>Real GDP growth, %</b>	9.0	6.7	6.5	6.7	7.0
<b>Inflation, annual ave, %</b>	4.5	8.4	3.0	8.5	4.5
<b>Govt balance, % GDP</b>	-6.9	-11.3	-12.0	-10.5	-9.5
<b>Debt service ratio, %</b>	5.4	6.4	7.5	6.5	6.0
<b>C/A balance, % GDP</b>	-1.5	-3.7	-0.5	-2.0	-2.5

Economic Indicators: Inflation refers to wholesale prices. Figures are for fiscal years (April-March; i.e. 2007 is April 2007 through March 2008); government balance includes feder

### Currency Information

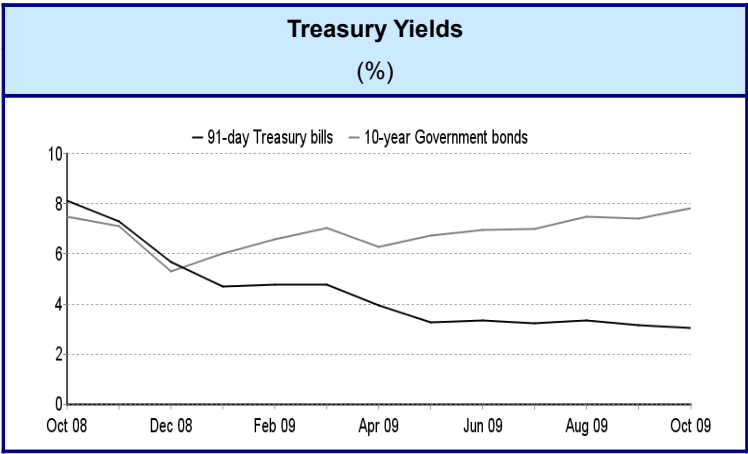
<b>Exchange Rates</b>	
(London, 18 Jan 10)	
EUR	65.7862
GBP	74.4167
JPY*	50.3907
USD	45.785
*(x 100)	



**Local Currency**  
(Indian rupee [INR]: USD)

	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
<b>Week 1</b>	47.950	48.885	47.740	46.965	46.290	46.535
<b>Week 2</b>	47.850	48.475	46.410	46.805	46.532	45.755
<b>Week 3</b>	48.245	48.135	46.290	46.315	46.725	45.785
<b>Week 4</b>	48.615	47.970	46.505	46.605	46.655	46.100
<b>Week 5</b>	48.825			46.650		

**Treasury Yields**



**Data Table**

Oct 08	Dec 08	Feb 09	Apr 09	Jun 09	Aug 09	Oct 09
8.12	5.68	4.78	3.94	3.347	3.347	3.02
7.48	5.3	6.57	6.29	6.95	7.5	7.83

## Risk Factor

The Indian economy appears set to continue to expand relatively rapidly in 2010. Despite a poor autumn harvest, the manufacturing and services sectors are benefiting from relatively buoyant private demand and government fiscal stimulus measures. In November 2009, industrial output grew by 11.7% in year-on-year (y/y) terms, the fastest expansion since late 2007, and by 3.0% in seasonally-adjusted month-on-month terms. In December, the manufacturing Purchasing Managers' Index indicated that firms' purchasing growth was the strongest in 15.0 months. Relatively low interest rates and easing input prices had begun to boost profits in mid-2009, and according to an early earnings release of 100 of India's largest publicly-listed corporations, profits rose even faster in September-December due to improved sales growth. D&B expects stronger profits will encourage further robust investment growth, as well as reduced payment risks in 2010.

Despite the generally positive outlook, policy challenges remain. The agricultural sector continues to struggle owing to the fallout of 2009's poor monsoon rains; the autumn harvest in some regions has dropped by as much as 15.0% y/y and rural incomes have come under pressure. Moreover, supply constraints have pushed food prices up rapidly (they had risen by 19.2% y/y, the fastest pace in 11 years, by December), causing hardship for middle- and low-income groups. To prevent a potential crisis, the government has begun to sell off part of its reserve food stocks, ease import taxes on food items (such as sugar) and reduce consumption taxes on some food items. Increasing food prices, alongside growing commodity price pressures, have also pushed up overall wholesale price inflation (to 7.3% in December). The price rises, and the risk of second-round wage hikes, are likely to hasten the central bank to tighten monetary policy in the first half of 2010. However, the bank's task is complicated in that simple rate rises may accelerate capital inflows and exacerbate asset-price inflation. By January 2010, the Bombay Stock Exchange's Sensitive Index of 100 leading shares had climbed by 86.2% y/y, boosted by record portfolio capital inflows in 2009. D&B expects that much of the central bank's monetary tightening will come through indirect mechanisms (e.g. raising banks' cash reserve ratio).

The government, still focused on plus-7% GDP growth, has remained vague on when and to what extent it will ease the fiscal stimulus it put in place last year. However, the finance minister has acknowledged that the government's record borrowing requirements of the past year are unsustainable. We believe that the government will (at least) begin to consolidate its finances in its March budget. Government borrowing has not yet noticeably squeezed out private demand, but another year of such heavy borrowing could.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

#### Recommended Terms:

D&B'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:

Normal period of credit associated with transactions with companies in the stated country.

#### Local Delays:

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

#### F/X Bank Delays:

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.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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Email: [CustomerHelp@dnb.com](mailto:CustomerHelp@dnb.com)

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Email: [CustomerService@dnb.com](mailto:CustomerService@dnb.com)

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