



Decide with Confidence

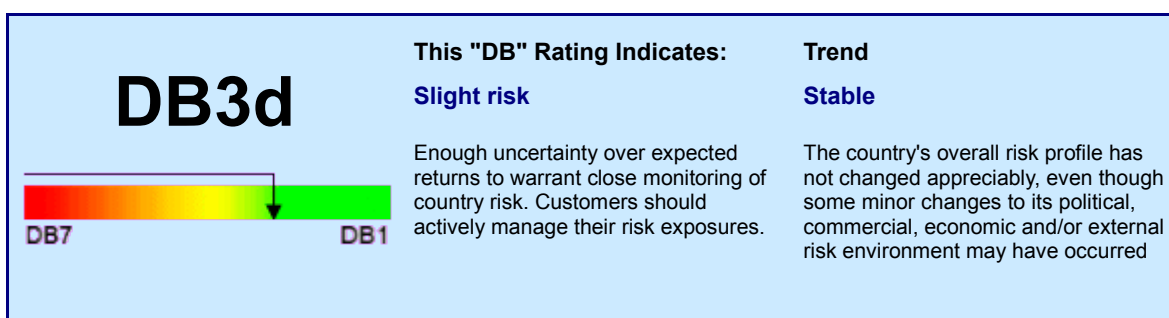
D&B Country RiskLine Report

INDIA

Region : Asia Pacific

Edition : June 2011

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

Population:	1.2bn
Surface area (sq km):	3,287,260
Capital:	New Delhi
Timezone:	GMT +05:30
Population density:	368 per sq. km
Head of state:	President Pratibha PATIL
GDP (USD):	1.6trn
GDP per capita (USD):	1,600
Life expectancy (years):	64
Literacy (% of adult pop.):	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

Minimum Terms:	SD
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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.

Recommended Terms:	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.

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

Transfer Situation

Local Delays:	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.

FX/Bank Delays:	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

D&B data indicate that the length of payment delays by Indian importers to US and European suppliers increased during early 2011; the average payment delay increased from 64 days in January to 69 days in March. Reflecting this deteriorating cross-border payments scenario, the ratio of Indian importers with accounts payable overdue increased from 70% to 81% during the same period. Care should be taken when dealing with Indian businesses in the months ahead. Firms continue to face strong inflationary pressures alongside increasing borrowing costs, and tighter margins for many firms will raise the risk of delinquencies throughout the second half of 2011. We continue to recommend LCs with India-based customers.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

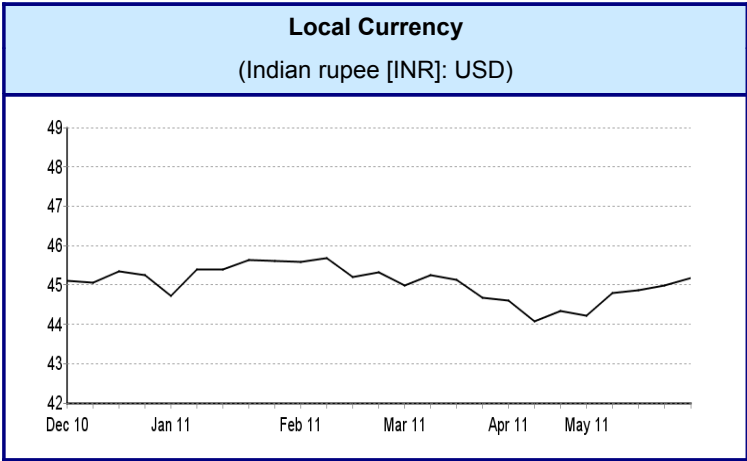
Economic Indicators

	2008	2009e	2010e	2011f	2012f
Real GDP growth, %	6.8	8.0	8.6	8.5	8.4
Inflation, annual ave, %	8.4	3.8	9.1	8.0	6.0
Govt balance, % GDP	-11.0	-11.2	-9.4	-9.0	-8.5
Debt service ratio, %	25.1	20.5	17.5	17.3	17.0
C/A balance, % GDP	-2.5	-3.2	-3.5	-3.0	-2.8

Economic Indicators: Inflation refers to wholesale prices. Figures are for fiscal years (April-March; i.e. 2008 is April 2008 through March 2009).

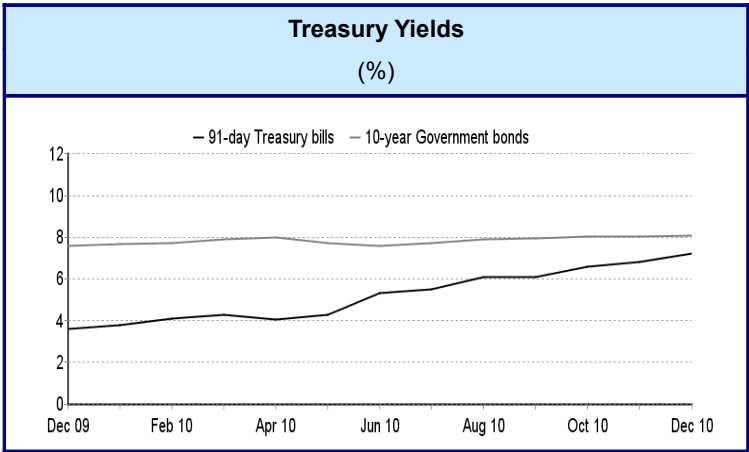
Currency Information

Exchange Rates (London, 30 May 11)	
EUR	64.4053
GBP	74.3597
JPY*	55.7799
USD	45.165
*(x 100)	



Local Currency (Indian rupee [INR]: USD)						
	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11
Week 1	45.110	44.725	45.595	44.985	44.595	44.215
Week 2	45.055	45.385	45.685	45.245	44.070	44.790
Week 3	45.345	45.385	45.205	45.120	44.330	44.865
Week 4	45.245	45.620	45.325	44.670		44.990
Week 5		45.615				45.165

Treasury Yields



Data Table						
Dec 09	Feb 10	Apr 10	Jun 10	Aug 10	Oct 10	Dec 10
3.6	4.1	4.05	5.3	6.1	6.6	7.2
7.58	7.74	8.0	7.6	7.9	8.05	8.1

Risk Factor

Price pressures and rising interest rates have begun to temper India's rapid economic expansion. In Q1 2011, the economy grew by just 7.7% year on year (y/y), its slowest expansion since Q3 2009. Private consumption remained strong, despite price pressures, with agricultural output (on which the majority of the population depends) continuing to rebound strongly. Meanwhile, export growth continued to outpace imports for the second straight quarter. It was investment growth, a core driver of India's rapid expansion over the past decade, that suffered the most prominent downturn; investment in fixed capital grew by just 0.4% y/y in Q1 (down from 19.5% a year earlier). Many companies have delayed investment decisions due to rising interest rates, while others have faced project approval bottlenecks, with government scandals and state-level elections slowing the approvals process. This investment downturn has hit the industrial sector particularly hard; manufacturing output grew by just 5.5% in Q1 (against 15.2% a year earlier). In April and May, India's Purchasing Managers' Index indicated that the manufacturing sector continued to lose momentum with output and new orders slowing. We expect price pressures and the rising cost of borrowing to prevent the rapid rates of economic growth seen just a few quarters ago throughout the rest of 2011.

Strong price pressures remain the Reserve Bank of India's (the central bank) predominant concern. In April, prices rose by 8.66% year on year (y/y); this was down only marginally from the 8.91% rise in March and well above the bank's target of 5-6%. The bank raised rates again in early May, lifting its benchmark lending rate 50 basis points to 7.25%. Despite nine interest rate hikes over the past 15 months, inflation expectations point to further and faster price rises. In the central bank's most recent inflation expectations survey, released in April, 99% of respondents expected higher prices in 12 months time and 77% expected these rises to be even faster than they currently are. Given such expectations (and with real interest rates still negative) further monetary tightening is warranted and should be expected.

However, yet higher interest rates will further curb profit margins further (already eroded by high input prices) and challenge highly indebted firms' solvency. Preliminary figures for Q1 indicate the number of publicly-listed firms recording losses was 28%; this represents a sharp increase from just 10% in the full 2010 calendar year. While Indian firms are not generally overly indebted, a number of sectors are particularly susceptible to higher debt servicing costs. For instance, telecoms, transport and textiles firms have, on average, worryingly low earnings-to-interest payment ratios (below 1.5%).

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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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

Customer Service & Support

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