

Country Insight Snapshot

India

January 2019





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, tax reform, 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

The oil price decline provides welcome respite for the balance of payments, but will neither strengthen the rupee significantly, nor reinvigorate the rural economy and employment trends.

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 positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

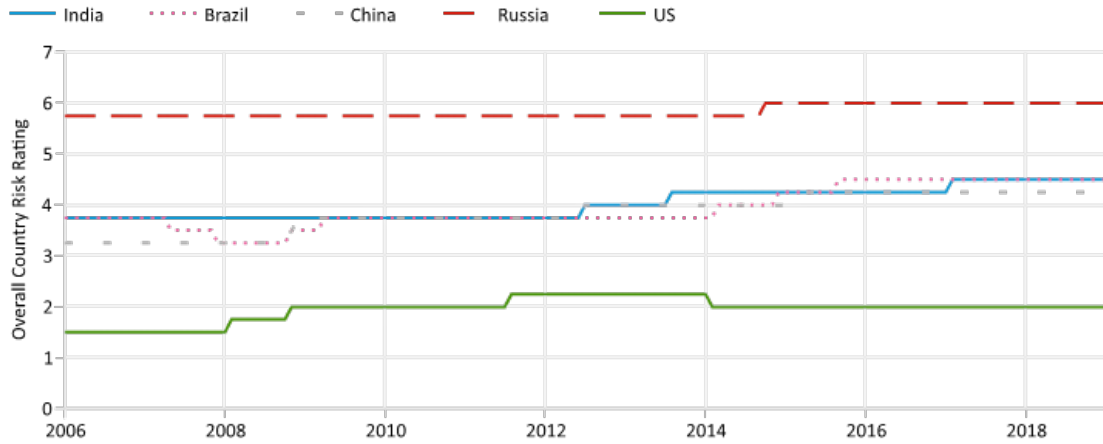
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

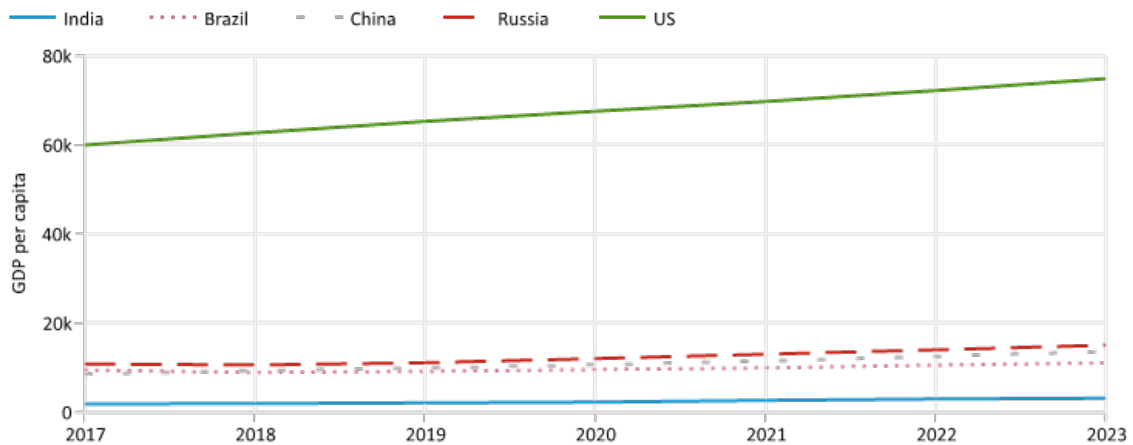
Rating History and Comparison



Source : Dun & Bradstreet

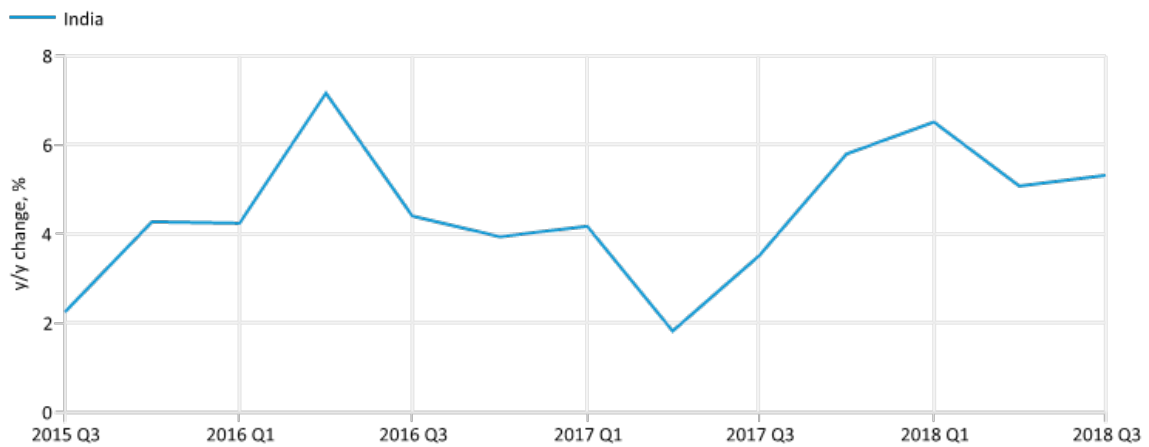
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-0.7	-1.9	-2.6	-2.2	-1.9	-1.2	-1.7	-1.6
Debt Service Ratio, %	8.3	7.5	9.3	10.0	10.0	9.5	9.5	9.0
Govt balance, % GDP	-3.7	-3.5	-3.6	-3.6	-3.3	-3.3	-4.0	-4.0
Inflation, annual avge %	4.5	3.6	3.9	4.8	5.0	5.0	4.5	4.5
Real GDP Growth, %	7.1	6.7	7.5	7.7	8.0	8.1	7.3	7.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Credit quality has not obviously deteriorated greatly in the small- to medium-sized enterprise sector, and non-performing rates remain low relative to those of large firms in the industrial sectors. However, the Reserve Bank of India move to allow loan restructuring in the sector since late 2018 could support such firms' cashflow and profitability. The recovery in corporate performance beyond the publicly-listed sector has been uneven after net profits in more than 3,000 non-financial public companies grew by 19.1% y/y in Q3, given depressed rural demand and stress in the informal sector from the policy shocks of 2016-17. The RBI move is part of the government's strategy to support credit to small- and medium-sized firms with faster credit approvals before the election, as such firms are the largest employers after agriculture. Overall, economic growth is still expected to remain subdued during the second half of the fiscal year (Q4 2018 and Q1 2019). Moderation of CPI inflation (at just 3.4% y/y in October) is good for the urban economy, but it also reflects the depressed food prices and, in turn, the subdued agrarian income and negative shocks to weak rural demand.

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.

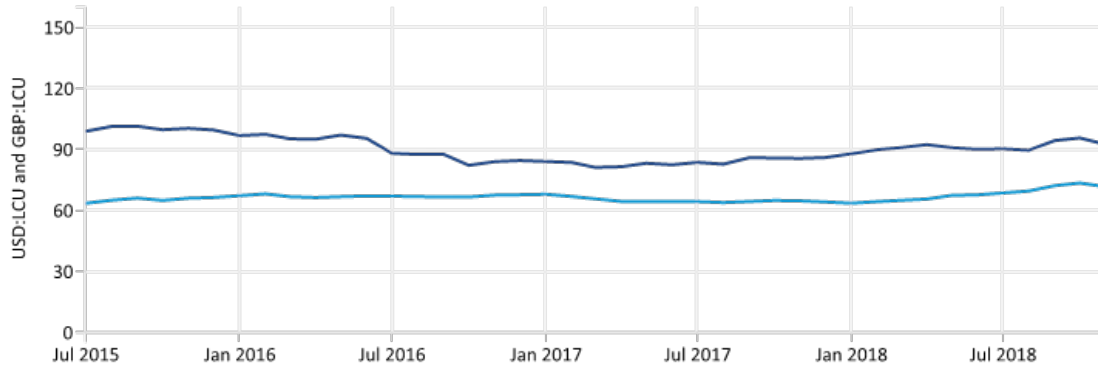
FX/Bank Delays: 0-2 months

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

USD:LCU — India
GBP:LCU — India

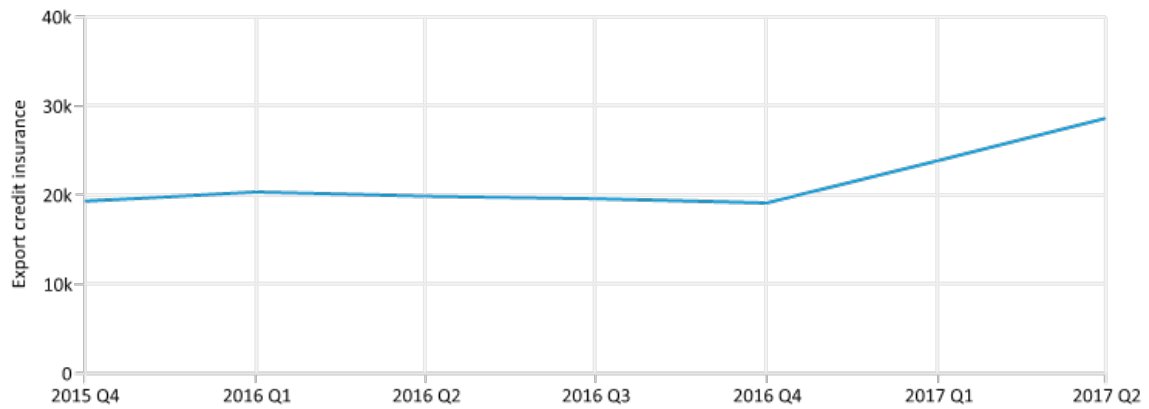


Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Credit Conditions

— India



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

FX Risk

Oil price lull offers reprieve for rupee

The rupee, having breached the INR74:USD mark in October 2018, witnessed a turnaround in November. Respite from a decline in global crude oil prices eased concerns over what would happen with a further expansion in India's current account deficit. Benchmark crude oil prices slumped below the USD60 per barrel (/b) mark by mid-December from a high of USD81/b witnessed in October owing to the fears of a supply side glut amid concerns about the slackening global oil demand in the coming months.

Given the softening of global crude oil prices, the incipient return of foreign investors to the stock market, and the investor anticipation of fewer US Fed rate hikes in 2019, we expect there will be reduced downward pressure on the rupee into 2020. However, despite all these positive cues, the rupee is unlikely to revive significantly in the short term. This is because the domestic economic fundamentals have largely remained unchanged, employment and export trends remain weak, and uncertainty prevails as India is headed for general elections in May 2019 with looming concerns regarding fiscal slippage.

Political/Insecurity Risk

Congress vote signals turn of fortunes

By May 2019, India will have hosted elections to both houses of parliament. In 2017, and much of 2018, the ruling Bharatiya Janatha Party (BJP) and its allies in the National Democratic Alliance coalition enjoyed a string of new successes at the state level, including in the most populous state, Uttar Pradesh. The BJP and its coalition looked almost invincible with a majority of India's states in its control.

However, in December 2018, the BJP lost soundly in three of five state elections, in three states in the BJP's Hindu heartland, Madhya Pradesh, Rajasthan and Chhattisgarh, while in Telangana and Mizoram, regional parties returned to dominance. The BJP lost more votes than Congress gained, and Congress won only narrowly in Rajasthan. But the results represented a significant turn in fortunes for Congress after its crushing defeat, gaining only 44 of 545 seats in the 2014 lower house of parliament, against the BJP's 267.

Together with depressed rural incomes, the jobs gap and the farm wage growth standing at a three-year low in 2018, this could injure the BJP's electoral prospects among farmers and small city voters in 2019. Generally, a failure to address concerns of the rural electorate could have repercussions for the ruling coalition, as that segment still determines the electoral verdict in the national elections. We expect a significant risk to policy continuity and for the execution of government policy, which has been quite pro-active - if also controversial - since 2014. We expect more political bargaining processes if the BJP loses a good part of its parliamentary majority in 2019. As the national elections loom in 2019, and with Congress ostensibly back in the political running, at least as a national opposition, more competitive populism is likely, with more farm loan waivers inevitable on top of the INR1.9trn (USD27bn) already announced, despite the lack of fiscal space at state and union level.



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 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)	1,333.0
GDP (USD billions)	2,707.1
GDP per capita (USD)	2,031
Life expectancy (years)	68.4
Literacy (% of adult pop.)	72.2
Surface area (sq km)	3,287,260

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	7.4	8.2	7.1	6.7	7.5
Nominal GDP in USDbn	2,039	2,102	2,274	2,602	2,707
Nominal GDP in local currency (bn)	124,680	137,640	152,537	167,732	189,500
GDP per Capita in USD	1,609	1,639	1,751	1,977	2,031
Population (year-end, m)	1,267.0	1,283.0	1,299.0	1,316.0	1,333.0
Exchange rate (yr avge, USD-LCU)	61.1	65.5	67.1	64.5	70.0
Current Account in USDbn	-26.7	-22.1	-15.2	-48.7	-70.0
Current Account (% of GDP)	-1.3	-1.1	-0.7	-1.9	-2.6
FX reserves (year-end, USDbn)	301.3	333.1	340.3	388.7	368.0
Import Cover (months)	6.7	8.3	8.4	8.0	7.1
Inflation (annual avge, %)	5.8	4.9	4.5	3.6	3.9
Govt Balance (% GDP)	-4.0	-3.9	-3.7	-3.5	-3.6

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	7.7	8.0	8.1	7.3	7.0
Nominal GDP in USDbn	2,972	3,240	3,819	4,305	4,623
Nominal GDP in local currency (bn)	214,000	243,000	275,000	305,250	337,500
GDP per Capita in USD	2,201	2,369	2,757	3,068	3,253
Population (year-end, m)	1,350.2	1,367.6	1,385.2	1,403.1	1,421.2
Exchange rate (yr avge, USD-LCU)	71.0	72.0	72.0	70.9	73.0
Current Account in USDbn	-64.0	-60.0	-44.3	-75.0	-75.0
Current Account (% of GDP)	-2.2	-1.9	-1.2	-1.7	-1.6
FX reserves (year-end, USDbn)	365.0	380.0	400.0	415.0	398.0
Import Cover (months)	7.2	7.1	7.0	6.6	6.5
Inflation (annual avge, %)	4.8	5.0	5.0	4.5	4.5
Govt Balance (% GDP)	-3.6	-3.3	-3.3	-4.0	-4.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,201	9,285	10,037	11,216	65,380
Country Population (m)	1,350.2	210.7	1,420.1	143.9	329.1
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2019 - 2028)	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

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Please [click here](#) to visit our online user guide.

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