



# India: Reliance on self-insurance poses potential increased risk

Atradius Payment Practices Barometer





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commented on the report

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*However, with a widespread preference for self-insurance practices, many businesses would benefit from protecting their accounts receivable with credit insurance.*

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The pandemic exacerbated India's weakening economy, causing the country to experience a sharp recession during 2020. Evidence of the difficulties faced by many businesses during this challenging time can be seen in the results of this year's Payment Practices Barometer survey. Although it is fair to say that most of the businesses we interviewed across Asia reported some economic impact of Covid-19, businesses in India were particularly hard hit. This is partly due to international supply chain disruptions, which particularly impacted India's import and exports in the textiles and pharmaceuticals businesses. The sharp recession also impacted domestic spending and put pressure on the ICT/electronics industry.

In the context of the pandemic economic stressors, it is not surprising that India reported more late payments and write-offs than most of Asia. However, with a widespread preference for self-insurance practices, many businesses would benefit from protecting their accounts receivable with credit insurance. Cash flow can be sorely tested during times of heightened economic risk and few businesses have the cash reserves to

withstand repeated write-offs and late payments. Strong credit management procedures, including robust tests of credit worthiness and diversification to avoid risk concentrations, can help protect businesses from the risks presented by bad debts.

The outlook is not as bleak as the survey results on late and non-payment may suggest, however. Despite the difficulties presented by the pandemic during 2020, a good number of businesses expressed optimism about the coming months. In large part this boost in business optimism has been driven by predictions of a strong economic rebound in 2021. But businesses should move forward with caution.

A growing order book may look great, but without enough cash flow to sustain it, this can pose a risk to businesses. Although the government's fiscal support packages have been fairly modest, at some point in the coming months, these will also be wound down. Businesses will need to navigate these potential hazards with agility and strong credit management processes.

# Key takeaways

## Businesses see sharp rise in the cost of offering trade credit

The cost of debt collection and managing accounts receivable increased substantially more for a lot more businesses in India than the regional average. This can partly be explained by an increase in the use of trade credit. However, significantly, the majority of businesses reporting such cost increases also chose to manage overdue invoices and debt collection in-house. This is an interesting parallel and suggests that despite the costs of engaging professional support – perhaps with credit insurance or professional debt collection for example – it may work out to be more cost effective to do so.

## Businesses in India were the hardest hit by late payments in Asia

The impact of the pandemic recession can be seen in the deteriorating payments behaviour of India's business customers. Significantly more businesses in India than in Asia told us that their customers were delaying payment, on average up to one month longer than last year. A substantial number of businesses – again many more than the Asian average – also reported trying to support the flow of trade by giving their customers longer to settle. Understandably, twice as many businesses in India, compared to Asia, point to the pandemic as the greatest threat to profitability over the coming months. During this time of heightened credit risk, many businesses could benefit from taking steps to protect their accounts receivable from potential non-payment.

## Despite pandemic concerns, business confidence is upbeat

Despite recording some of the worst results in this year's Payment Practices Barometer survey, many more businesses in India than their peers in Asia told us that they expect to see an improvement in their business performance over the next 12 months. The majority expect the improvement to come from the forecast rebound in both the domestic and international economies. Some of this business optimism may also be grounded in the fiscal support provided by the government, which includes tax breaks and incentives for domestic manufacturing. However, businesses should also take steps to protect their cash flow from potential liquidity constraints when the government support is reduced or removed.

## Pandemic interruptions to supply chains hits textiles industry hard

9% of India's credit sales in the textiles industry were written-off last year and 52% were reported overdue. Both of these performance indicators were higher than industry regional averages. Interestingly credit insurance is used far less by the industry in India than in Asia. A significant proportion of textiles businesses offer discounts for early payment of invoices to support business liquidity. Accessing finance and practising diversification are two further credit management techniques that may also help business cash flow, both of which could be used in conjunction with credit insurance.

# Survey results for India

## Credit sales significantly increased in the months following the outbreak of the pandemic

Significantly more businesses polled in India (62%) than in Asia (44%) reported increased trading on credit terms with B2B customers in the months following the outbreak of the pandemic. 52% of the total value of sales across the industries surveyed (chemicals/pharma, ICT/electronics and textiles/clothing) is now transacted on credit. This is almost in line with the current 54% for Asia. India's textiles/clothing industry is the most active, with 54% of all sales made on credit (regional average: 57%).

The ICT/electronics industry ranks second (regional average: 55%) and the chemicals/pharma industry follows with an average of 51% (lower than the 54% average for the industry in Asia). The proportion of credit-based sales is higher on the domestic (59%) than on export markets (41%).

## Use of trade credit insurance on the rise over the coming months

More businesses in China (40%) than in Asia (37%) anticipate using trade credit insurance more often over the coming months. 53% of businesses told us

India: how do you expect your business performance to change over the coming months?



IMPROVE  
78%



NO CHANGE  
19%



DETERIORATE  
3%

Which key developments will drive your business improvement?



Sample: all interviewed companies  
Source: Atradius Payment Practices Barometer - June 2021

# 63%

of the businesses polled in India told us that administrative costs associated with the management of accounts receivable increased over the past year.

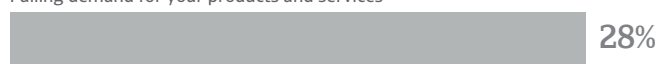
they believe this approach should help keep DSO levels stable (regional average: 48%). Fewer businesses polled in China (32%) than in Asia (38%) believe that DSO will deteriorate over the coming months, and more businesses in China (14%) than in Asia (10%) anticipate improvement in cash flow over the coming months.

To mitigate the impact of customer credit risk associated with the increased extension of trade credit over the coming months, more business polled in China (45%) than in Asia (42%) said they plan to request guarantees of payment from their B2B customers. In addition, more businesses in China (43%) than in Asia (38%) anticipate performing frequent adjustments of credit terms, to account for fluctuations in the credit risk profile of their customers.

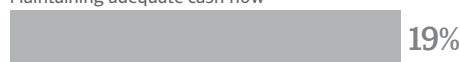
## India: top 5 greatest challenges to business profitability in 2021

% of respondents

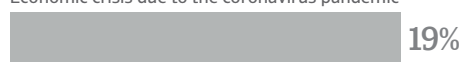
Falling demand for your products and services



Maintaining adequate cash flow



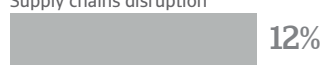
Economic crisis due to the coronavirus pandemic



Containment of costs



Supply chains disruption



Other



Sample: all interviewed companies

Source: Atradius Payment Practices Barometer - June 2021

## Businesses use credit to strengthen trade relationships during pandemic

The majority of businesses polled in India (64%, higher than the 54% average for Asia) reported they accepted trade credit requests to encourage repeat business with established customers. Less commonly cited reasons for offering trade credit include: winning new customers, staying competitive in their markets, and allowing customers time to pay (for example, if they are awaiting payment from their buyers, need to sell goods on, or to obtain bank finance). These latter reasons for offering credit were reported far less frequently by businesses in India than their Asian peers.

## Credit management and trade debt collection costs increased

Survey data indicates that, in the year that followed the pandemic outbreak, more businesses in India (63%) than in Asia (49%) reported increased administrative costs associated with the management of accounts receivable. This was most often seen with businesses that opted for retaining and managing customer credit risk internally, through adjustment of payment terms to reflect the credit risk profile of the customer. Costs involved acquiring credit information (most often through the customer's financial statements and bank references), as well as assessing and monitoring customer credit risk through the evaluation of internal information provided by the customer. Increased costs for the collection of trade debts were reported by far more businesses in India (56%) than in Asia (42%) and most often by businesses that chose to manage the collection of long-term overdue invoices internally rather than by outsourcing it to a specialist agency.

Additional costs associated with the in-house management of trade debt collection also included an increase in financing or interest paid during the time-lag between the credit sale and the settlement of the invoices, as well as a rise in bad debts. With businesses in India reporting just over 60% of all sales traded on credit, it is not surprising that costs associated with the provision of trade credit need to be thoroughly managed. If this is not done, costs may easily outweigh sales revenue, thus jeopardising the profitability of the business especially if profit margins are tight.

## Payment terms most often reflect company standards

Payment terms reflect company standards for significantly more respondents in India (63%) than in Asia (53%). In addition, 48% of respondents in India (regional average: 39%) told us their payment terms were influenced by the credit capacity of the customer.

Far more businesses in India (49%) than in Asia (35%) offered customers longer time to settle invoices over the past year, most often up to one month longer to pay. Profit margins dictate payment terms granted to the customers of 45% of respondents in India compared to 36% in Asia. The availability of a credit insurance cover seems to be far more relevant for businesses in India than for their peers in Asia.

### Late payments from B2B customers hit businesses in India harder than Asian peers

Significantly more respondents in India (57%) than in Asia (40%) reported that their customers slowed down invoice payment over the past year. On average, it took them up to one month longer than last year to settle overdue invoices. This affects an average of 55% of all B2B invoices, which is above the average for Asia overall (50%). 9% of long-term overdue invoices (more than 90 days overdue) were written off as uncollectable by businesses in India. This is higher than the 5% average for Asia. The fact that businesses in India were the hardest hit in Asia by late payments may be a reflection of a heightened credit risk environment in which Indian businesses operate. This could also be due to a substantially different approach to the management of overdue invoices taken by businesses across the region. Further detail can be found below in the overview by industry section below.

### Businesses point to the ongoing pandemic as the primary threat to business profitability

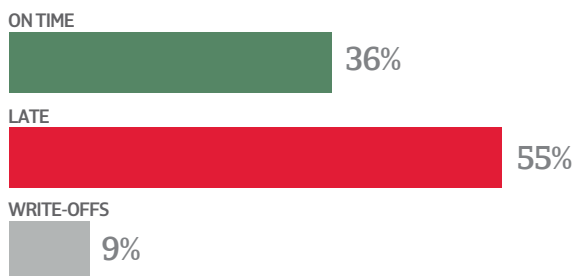
Twice as many businesses in India (28%) as their peers in Asia (14%) expressed concern about a potential fall in demand for their products and services, and for this to negatively impact their profitability over the coming months. This pessimism is highly likely to stem from the recent pandemic surge across the subcontinent, which exacerbated the country's economic conditions, and additionally poses a risk to a full recovery of the global economy over the coming months. Interestingly, this largely negative scenario is in contrast with the confident business sentiment displayed by the businesses polled in India.

### Businesses predict reversal of economic decline over the coming months

Looking ahead, businesses in India appear to be far more optimistic (78%) than their peers in Asia (52%) in anticipating improvement in their business performance over the next 12 months. 48% of businesses (on par with the regional average) believe the improvement in performance will be mainly due to a rebound of the domestic economy. Fewer businesses in India (12%) than in Asia (15%) anticipate that the expected rebound will come exclusively from exports. More businesses in India (40%) than in Asia (36%) anticipate that improvement in their business

### India: on average, within what time frame do your B2B customers pay their invoices?

% of respondents



Sample: all interviewed companies

Source: Atradius Payment Practices Barometer - June 2021

performance will stem from a combination of healthier export flows and a rebound in the domestic economy. Against this background of an anticipated improvement in economic and trade conditions over the coming months, most of the businesses we polled in India (57%, significantly higher than the 32% regional average) told us that selling on credit would become an increasingly widespread business practice over the next 12 months. In particular, this would be aimed at stimulating demand in industries where it had plunged due to the pandemic economic downturn.

### In-house retention and management of customer credit risk on the rise over the coming months

In light of the intention expressed by many businesses to use credit sales to stimulate demand, it comes as no surprise that India's businesses plan to implement credit risk mitigating tools more frequently over the coming months. 64% of the businesses we polled (regional average: 43%) told us they plan to retain and manage customer credit risk internally (self-insurance). 50% said they would increase requests for payment guarantees (regional average: 42%). More frequent requests for cash payments, as well as stronger collection efforts and avoidance of risk concentrations in their credit-based sales ledger is anticipated by nearly half of the businesses polled in India, compared to a nearly 40% average in Asia. 39% reported they anticipate employing credit insurance over the coming months (regional average: 37%). 47% plan to offer discounts for early payment (compared to 37% in Asia) and 43% to outsource trade debt collection (regional average: 33%). Despite employing more credit management tools and techniques than the regional average, a surprising 61% of survey respondents in India believe DSO will deteriorate over the coming months (regional average: 38%). In contrast just 25% believe the diverse approach to credit management will keep Days Sales Outstanding (DSO) under control over the coming months (regional average 48%).

# Overview of payment practices in India

## By industry



### CHEMICALS/PHARMA



#### Overview

The chemicals/pharma industry sold over half of its output on credit terms, mainly on the domestic market, recording strong growth (possibly due to the strong demand for pharmaceutical products during the pandemic). Over the past year, trade credit in B2B transactions was increasingly used by the local industry to encourage repeat business. However, this led to increased costs for the collection of overdue invoices and bad debts, because of a heightened payment default risk environment. In order to safeguard their liquidity levels, the measures the industry most frequently adopted included: the strengthening of credit control procedures, delaying payments to suppliers and requesting bank overdraft extensions.

Protecting cash flow will continue to be a focus area over the coming months for many businesses. Far stronger overdue collection efforts and incentives such as discounts for early payment of invoices will become more common as part of the management of credit risk in-house, as opposed to outsourcing.

#### Late payments and write-offs higher than in Asia

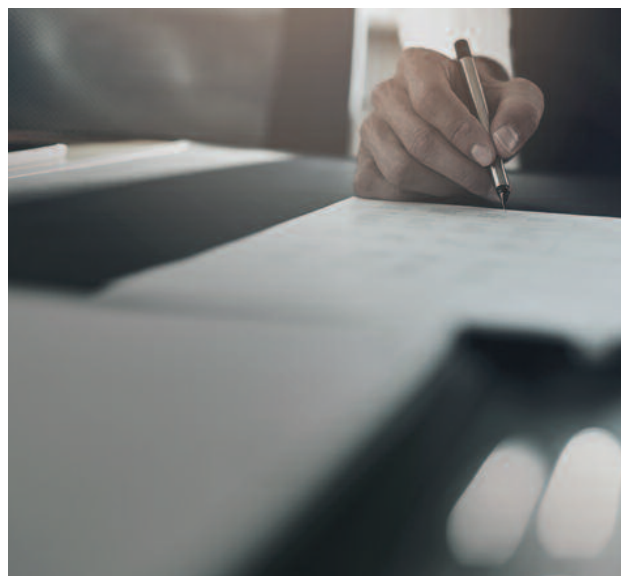
55% of the total value of B2B credit sales is overdue (regional average: 54%). 10% was written off as uncollectable. This is higher than the 7% average for Asia. Chemicals/pharma businesses in India were significantly less efficient at collecting long-term overdue invoices of high value (over 90 days overdue) than their industry peers in Asia. 55% of survey respondents in India reported less effective trade debt collection and increased DSO over the past year (regional average 39%). This is reflected in the DSO results, which reveal a 120-day average for the industry in India, compared to a 95-day average for Asia.

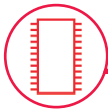
The industry's increase in DSO is likely to be due to the significant deterioration in cash flow reported by respondents and the lower success in overdue invoices collection.

#### Trade credit insurance widely used in the industry

Strategic credit management through the use of credit insurance seems to be applied in India as often as in Asia (nearly 60% of respondents). The majority of the businesses polled in India (71%, on par with the average for the region) told us they opted to manage credit risk themselves through self-insurance. Requesting cash terms and letters of credit are also common businesses practices in the local industry. Looking ahead, 63% of businesses in the chemicals/pharma industry are concerned about maintaining cash flow levels (regional average: 40%) and anticipate deteriorating DSO over the coming months.

Despite this, business confidence in the industry is positive with many more businesses in the country (73%) than in Asia (57%) anticipating improvement in business performance over the coming months, mainly coming from a combination of healthier economic conditions and stronger exports.





## ICT/ELECTRONICS



### Overview

The ICT/electronics industry is one of the key growth drivers of India's economy. Due to the temporary closure of businesses during the lockdown measures, sales deteriorated and payment delays have increased, especially in the project-related supplies segment.

However, some businesses in the industry have benefited, as demand for laptops and IT products saw some growth as working from home and home schooling increased. Amidst expectations of growth over the coming months, the sector anticipates a more widespread use of trade credit chiefly as an aid to sales both domestically and abroad.

### **DSO in the industry in India lower than the regional average**

DSO in India's ICT/electronics is now at a 100-day average, compared to the 110-day average for the industry in Asia. This is because businesses were more successful than their regional peers at collecting long-term overdue invoices (more than 90 days overdue) of high value. This correspondingly had a positive effect on DSO, although it increased for 40% of respondents in India compared to 30% in the industry in Asia.

An average of 56% of the total value of credit sales is overdue (higher than the 47% average for Asia). 6% of the total value of B2B receivables was written off as uncollectable. This is higher than the 4% average for the region. Perhaps due to the greater impact of late payments on businesses in India than in Asia, 47% of businesses in India spent more time, costs and resources on chasing unpaid invoices and tightening their credit control processes last year (regional average: 43%). To protect their liquidity levels, more businesses in the industry in India (51%) than in Asia (38%) needed to delay payment to their suppliers and 41% paid bills and staff late (significantly more than the 21% reported in the industry in Asia overall).

### **Continuation of the pandemic is greatest concern for the industry**

Looking ahead, far more ICT/electronics businesses in India expressed concern over the continuation of the pandemic over the coming months (27%) than their industry peers in Asia (17%). This is by far the industry's greatest concern. Despite this, businesses expressed confidence in a positive outlook for their business performance (sales and profits) over the coming months. 75% in the industry in India, compared to just 42% in Asia, anticipate improvement.



For nearly half of the businesses in India (regional average: 46%) this will come mainly from the rebound of the domestic economy.

Improvement in business performance due to a combination of increased exports and improved conditions of their domestic economies is expected by almost the same number of respondents in India and Asia alike. Against this backdrop, far more businesses in the industry in India (44%) than in Asia (24%) believe that trading on credit will be more frequent over the coming months to stimulate demand. However a similar percentage of respondents in both India and Asia believe that a greater use of trade credit over the coming months will be down to businesses providing short-term trade finance to their customers.



## TEXTILES/CLOTHING



### Overview

India's textiles/clothing industry is the world's second largest manufacturer and exporter (after China). The industry has been severely impacted by the economic effects of the pandemic crisis affecting India. This caused severe disruptions to the local industry supply chains, and especially affected the business performance of manufacturer-wholesalers.

Bad debts in particular hit local businesses harder than their industry peers in Asia, and represented money lost on void sales that could impact the viability of the business. It is not a surprise, therefore, that the industry in India is worried about its domestic and export sales. Despite this, confidence is expressed over an improvement in the situation stemming from a rebound chiefly of the domestic economy over the coming months.



## Self-insurance far more widely chosen than credit insurance

Credit insurance is used far less by businesses in the industry in India (48%) than in Asia (55%). Conversely, the former opted for self-insurance far more than their Asian peers (87% of respondents in India, compared to 78% in Asia). Businesses in India taking the self-insurance approach, most often offer discounts for early payment of invoices to accelerate cash inflows (reported by 76% of respondents in India and 66% in Asia). Factoring is also a credit management tool more businesses in the industry in India (66%) than in Asia (56%) resorted to over the past year.

With overdue invoices amounting to 52% of total B2B credit sales, businesses in India's textiles/clothing industry appear to be harder hit by late payments than their industry peers in Asia, which reported 50%. The same pattern can be seen with a 9% average of write-off rate for the industry in India, versus 7% Asia. This highly likely to be due to the differences in trade debt management.

64% of businesses in India (regional average: 54%) told us they delayed payments to suppliers to reduce the need for external financing of working capital. However, as a complement to this many told us they strengthened credit control processes over the past 12 months (42% in India, compared to 36% in Asia), or requested a bank overdraft extension (40% in India, compared to 32% in Asia). Unfortunately, this greatly diverse approach to credit management was not enough to keep DSO stable over the same period. Far more businesses in the industry in India (69%) than their peers in Asia (48%) reported DSO increases due to a less efficient collection of overdue invoices of high-value. The average DSO for the industry in India is 87 days, longer than the average 81 days for Asia.

## Businesses express concern over potential drop in demand for products and services

37% of India's textiles/clothing businesses (regional average: 23%) told us they are concerned about a potential fall in demand for their products and services over the coming months. 16% are concerned about the continuation of the pandemic worldwide further disrupting global supply chains (regional average: 12%).

Despite growing concerns over the recent jump in Covid-19 cases in India, local businesses in the industry are more positive than their industry peers in Asia about the likelihood of an improvement in their business performance over the coming months (87% in India vs 57% in Asia). 56% said they believed the improvement would come from both a rebound of the domestic economy (regional average: 47%).

Fewer businesses in India than in Asia believe improvement in their business performance will come from increased export trade flows, while businesses in the industry in India agree with their local peers that predicted growth is likely to stem from both a rebound of the domestic economy and increased exports. Correspondingly, substantially more businesses in India (71%) than in Asia (44%) believe that trading on credit primarily to stimulate demand from B2B customers will become more widespread over the coming months.



# Survey design for India

## Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on India, which is part of the 2021 edition of the Atradius Payment Practices Barometer, companies from India have been surveyed. Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results. Using a questionnaire, CSA Research conducted 200 interviews in total. All interviews were conducted exclusively for Atradius.

## Survey scope

- **Basic population:** companies from India were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of country data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=200 people were interviewed in total. A quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021

## Sample overview – Total interviews = 1,200

Economy	Interviews	%
India	200	100
<b>Business sector (India)</b>		
	Interviews	%
Manufacturing	114	57
Wholesale	24	12
Retail trade/Distribution	25	13
Services	37	19
<b>Business size (India)</b>		
	Interviews	%
Small enterprises	61	30
Medium-sized enterprises	112	56
Large enterprises	27	14

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

This is part of the June 2021 Payment Practices Barometer of Atradius, available at [www.atradius.com/publications](http://www.atradius.com/publications)  
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