Managing risk, enabling trade

RESULTS NOVEMBER 2014

Atradius Payment Practices Barometer

International survey of B2B payment behaviour
Survey results for India

Survey design for Asia Pacific

Survey objectives

For internationally active companies, it is vital to have good knowledge of the payment practices of potential customers in countries they do or plan to do business with, as miscalculation may result in serious cashflow problems. This applies to big as well as small companies. Big companies are particularly hit by poor payment behaviour due to the volume of their international transactions. Smaller companies often learn the hard way early in their international endeavours that they have incorrectly estimated the payment practices of their international business partners.

Atradius is conducting regular reviews of corporate payment practices through a survey called the "Atradius Payment Practices Barometer". Using the questionnaire Conclusr conducted a netto of 1,692 interviews in Asia and the Pacific. The interviews were all conducted exclusively for Atradius and there was no combination of topics.

Survey scope

- Basic population: companies from 8 countries were monitored (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan). The appropriate contacts for accounts receivable management were interviewed.
- Selection process:
  Internet survey: 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=1,692 people were interviewed in total (approximately n=200 people per country). In each country, a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 12 minutes duration.

Sample overview – Total interviews = 1,692

Country	n	%
Australia	213	12.6
China	219	12.9
Hong Kong	220	12.9
India	208	12.3
Indonesia	207	12.3
Japan	208	12.3
Singapore	208	12.3
Taiwan	209	12.4
Industry	**n**	**%**
Manufacturing	605	35.8
Wholesale / Retail / Distribution	490	29.0
Services	597	35.2
Business size	**n**	**%**
Micro-enterprises	572	33.8
SMEs (Small/Medium enterprises)	857	50.7
Large enterprises	263	15.5

It may occur that the results are a percent more or less than 100% when calculating the results. 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.

Survey results for India

The greatest challenge to business profitability this year

India's economy grew 5.7% year on year in the year ending in June 2014, which signalled a new positive revival in India's fortunes following the election of their new leader, Narendra Modi.

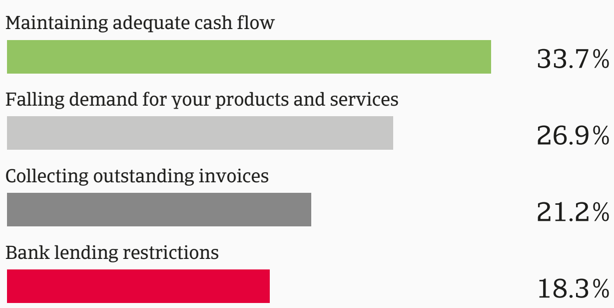
Higher than expected, the figure suggests an improved outlook for an economy that has remained at less than 5 percent growth for nearly two years, and compares with 4.6 percent growth in the previous quarter and 4.4 percent growth in the June period last year. In Asia, only the economies of China and Japan are larger.

Against this revived economic backdrop, where businesses continue to flourish, we asked Indian respondents to share the main challenge to the profitability of their business. With the exception of Japan, Indian respondents were aligned with their peers in Asia Pacific in citing "maintaining adequate cash flow" as their biggest challenge, although at 33.7% India scored below average for the region, which stood at 35.6%.

The second biggest challenge of respondents from India was "falling demand for products and services". However the 26.9% of respondents for which this was a big challenge is below the regional average of 32.3%. The third biggest challenge was "collection of outstanding invoices". At 21.2% this response rate was not only significantly above average, but was also the second highest of the Asia Pacific countries surveyed. This may be due to sluggish administrative procedures, which are also cited by many as the reason many Indian infrastructure projects are slow to start.

But perhaps most significantly, Indian respondents were the most likely to encounter bank lending restrictions as a barrier to business profitability. At 17.8%, they scored highest amongst Asia Pacific nations. This highlights that, despite the rosy economic outlook for India, the banking sector remains cautious in the face of relatively high inflation and concerns regarding increasing debt and deteriorating credit quality.

The greatest challenge to business profitability this year – India



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – November 2014

More information in the [Statistical appendix]

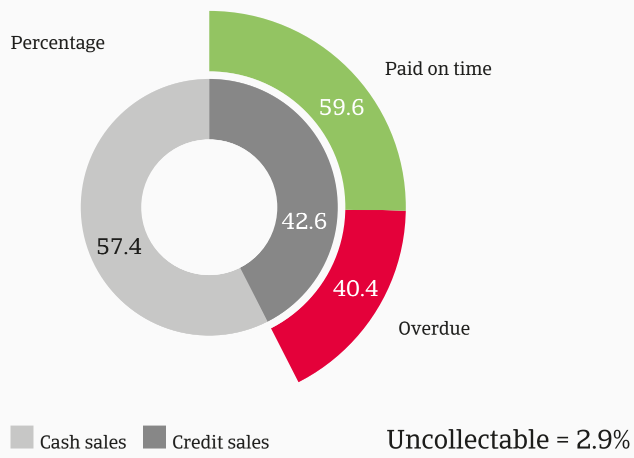
Past due and uncollectable receivables

Indian responses indicated a higher degree of hardship than most at the hands of past due receivables. 40.4% of the value of B2B invoices issued by Indian respondents was unpaid at the due date, second only to Singapore at 41.5%. The regional average was just 36.2%.This may be a sign that in the face of constrained bank lending businesses are attempting to maintain as much liquidity and positive cash flow as possible.

More concerting however is that Indian respondents cited the highest rate of receivables extending more than 90 days past due (6,1%), with 2.9% of receivables ultimately going uncollected. In both cases, the results from Indian respondents were the highest in the survey. Once again, bank lending constraints are likely to be the main reason behind the payment delays, creating a vulnerable trade credit scenario for Indian businesses.

By comparing the percentage of B2B receivables that remained outstanding after 90 days past due to that of uncollectable receivables, we can conclude that on average, businesses in India lose 47.5% of the value of their receivables that are not paid within 90 days of the due date. Across Asia Pacific, this was highest in China, with 64.1%.

Average total value of B2B receivables by payment timing in India



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – November 2014

More information in the [Statistical appendix]

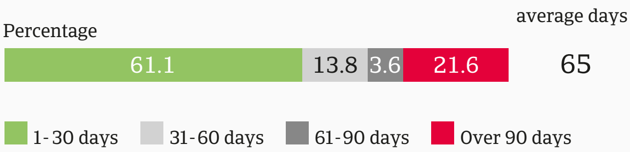
Days Sales Outstanding – DSO

Indian respondents recorded the second highest DSO of the Asia Pacific economies with an average of 65 days. This was higher than all but Indonesia at 100 days. Across the region, the average DSO sits at 54 days The average payment term for the region is 34 days, which, when compared with India's average DSO of 65 days, leaves a significant shortfall of over thirty days between invoice due date and payment. 72.1% of Indian respondents said that they became concerned about the sustainability of their businesses once DSO exceeded 90 days, placing them in the middle of those surveyed - the highest was China at 78.9% and the lowest Japan at 61.2%.

Also of note, by comparing the percentage of receivables that remained outstanding after 90 days past due, to that of the uncollectable receivables, we can conclude that on average, businesses in India lose 47.5% of receivables unpaid within 90 days. By country, this is the fifth highest of the coutnries surveyed in the Asia Pacific region. This percentage was highest in China at 64.1%.

The high Indian DSO could indicate erratic payment culture or disciplines in the nation and could negatively impact financing and even production, both of which are critical to India's service and manufacturing led economy.

Average DSO in India



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – November 2014

More information in the Statistical appendix

Main reasons for late payment from B2B customers

The main reason given for late domestic payment by Indian respondents was insufficient availability of funds, at 54.77% the second highest response rate after China at 67.16%. Both were significantly higher than the average of 47.25% for Asia Pacific. India's businesses also cited "buyer using outstanding debts or invoices as financing", as a key reason. The response rate of 41.21% was the highest in the Asia Pacific region, and compared to a regional average of just 30.67%. This highlights a potentially deeper rooted problem for Indian businesses and suggests an environment in which constrained cash flow and bank lending is causing businesses to seek financing or liquidity from other sources.

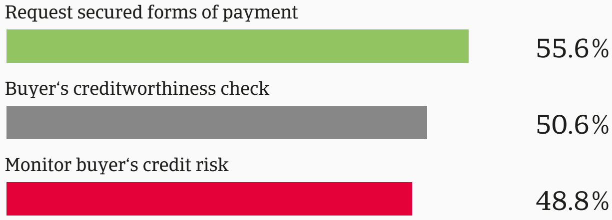
In terms of reasons given for late payment by foreign customers "complexity of payment procedures" topped the scores, at 44.83%, which could be the result of the notoriously complex and often sluggish Indian bureaucratic system – interestingly, at 39.97%, this was also the most frequently cited reason for payment delays across the entire Asia Pacific region.

Credit management policies used by respondents

Indian respondents were the most likely to have credit management policies in place to protect their businesses with 85.35% of those surveyed stating that they undertook such activities in some shape or form compared to a regional average of 72.14%. The most common credit management practice used by Indian respondents was requesting secured forms of payment at 55.56%. Respondents in China, Taiwan and Indonesia shared the preference for this credit management practice, all with response rates exceeding the regional average of 51.03%. Indian respondents were also likely to check their buyers' creditworthiness and to monitor their buyers' credit risk, which came in at 50.72% and 48.77% of respondents respectively. These actions further reflect the current instability of trade credit in the nation.

In terms of actual payment, Indian respondents had the highest expectations of increased use of credit card, PayPal and electronic transfers. 68.79% of Indian respondents expect the use of credit cards to increase (regional average of 41.06%), 54.39% expect the use of PayPal to increase (regional average of 47.01%), and 68.79% foresee growth in the use of electronic transfers of funds (regional average 41.06%). These all point towards the adoption of more Westernised practices, combined with the use of credit in further ways and the growing prevalence of online purchasing.

Most often used credit management policies in India



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – November 2014

More information in the Statistical appendix

Survey results by country, industry and business size

The findings related to each of the countries surveyed across Asia Pacific are presented in the Statistical Appendix which also features results by industry and business size. The latter, at an overall survey level, are displayed next to the related tables in the Statistical Appendix to this report. The regional report of this edition of the Atradius Payment Practices Barometer, as well as its Statistical Appendix, are available for free and downloadable on the atradius.com website.

If you would like more information about protecting your receivables against payment default by your customers you can visit the Atradius website or if you have more specific questions, please leave a message and a product specialist will call you back.

Statistical appendix

The Statistical appendix to this report is part of the November 2014 Payment Practices Barometer of Atradius (survey results for Asia Pacific) available at www.atradius.com/Publications/ Payment Practices Barometer. This appendix is available for download in PDF format (English only).

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Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com