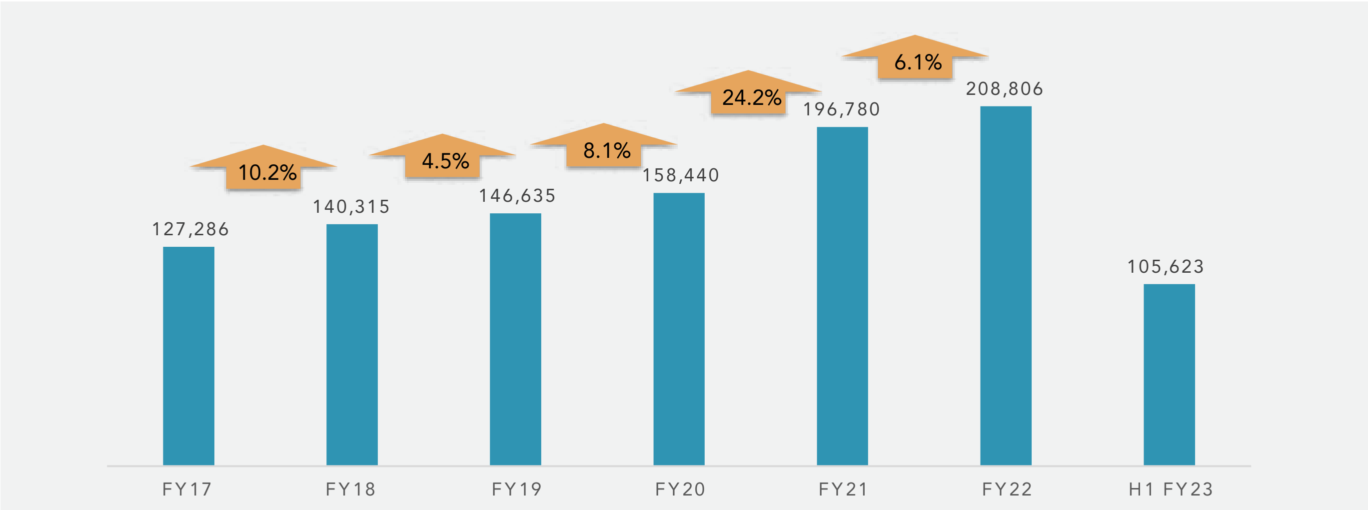
Dun & Bradstreet India Data Updates

NEW BUSINESS REGISTRATIONS IN INDIA

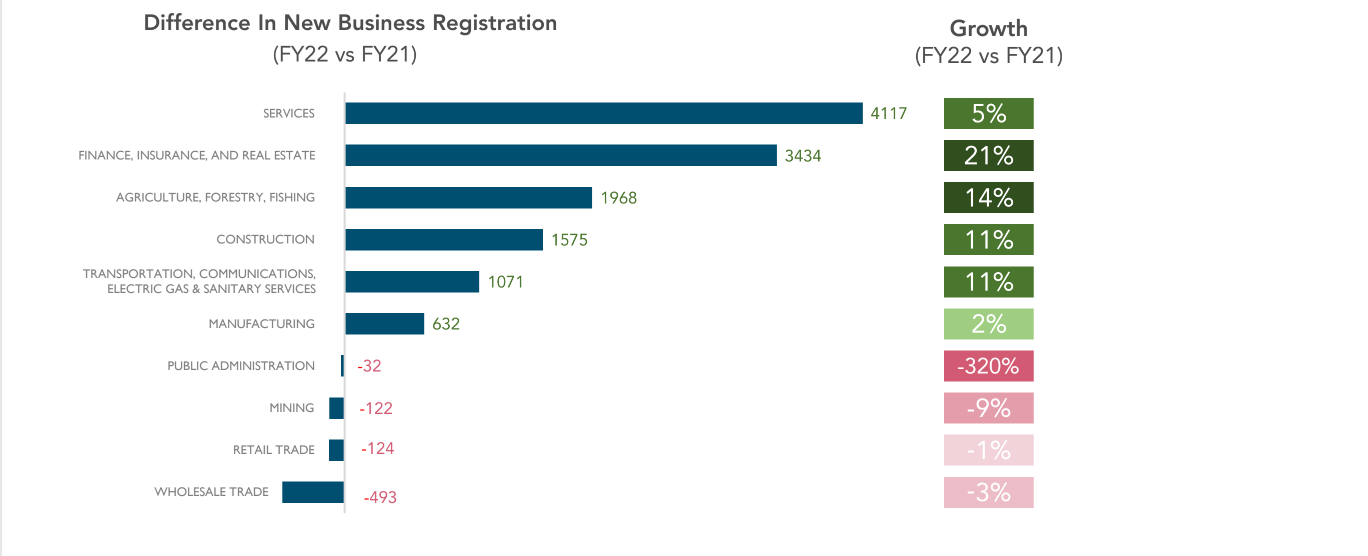
Business registrations in India crossed 200,000 companies for the first time in FY 2022. On an average 572 companies got registered every day compared to 348 companies in FY 2017. The trend continues to be positive for FY 2023 as well, with an average of 578 companies getting registered every day during the first six months.



Source: Ministry of Corporate Affairs, Dun & Bradstreet

SECTOR-WISE REGISTRATIONS OF NEW BUSINESSES

The finance, insurance and real estate, and agriculture, forestry and fishing sectors recorded the highest growth in new business registrations at 21% and 14% respectively in FY 22.



Source: Ministry of Corporate Affairs, Dun & Bradstreet

Business Dynamism Continues to be Robust in India

By Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet

The number of new business registrations in India crossed the 200,000 mark for the first time in FY22. A total of 208,806 businesses were registered in FY22 compared to 196,780 businesses in FY21. Continuing this momentum, new business registrations during H1 FY23, stood at over 105,000. It is essential for a market economy such as India to have healthy levels of business entry and exits as it facilitates the process of reallocating resources to more productive sources. The birth rate of new businesses, defined as the number of new businesses registered as a percentage of active firms, stood at 11.6% in FY22 and 11.8% as of August 2022. While these figures are almost at the same level as in FY21, it is considerably higher than the pre-pandemic average of 9.3%. New business entries translate to a higher level of competition in a market, thus forcing the existing ones to be more productive or risk going out of business.

Social services, real estate, agricultural production (crops), and health services sector witnessed the highest number of incremental registrations from the previous year. There has been an increasingly high proliferation of non-profit organisations (NPOs) after the pandemic. Today, two out of every three businesses registered in the social services sector are nonprofits. Before the pandemic, only one out of every three businesses was a nonprofit. One of the reasons fueling the growth of NPOs is the availability of funding. For instance, the total amount spent by Indian corporates on Corporate Social Responsibility increased at a compounded annual growth rate of 14.7%, from Rs 143 bn to Rs 249 bn between FY17 and FY21. By comparison, India's GDP grew by 6.5% during the same period.

As more businesses adopted remote work, individuals shifted away from city centers towards the peripheries, resulting in a "donut effect". Consequently, the demand for real estate agents boomed. There were over 9,100 new real estate agent business registrations in FY22, compared to an average of 5,000 registration in the previous five years. Growth continues to be strong in FY23, with over 5,000 so far.

The number of businesses registered under the agricultural production (crops) segment almost tripled to ~9,600 during FY21 and FY22 compared to the preceding four years. Over 50% of the newly registered agricultural businesses in FY22 are Farmer Producer Organizations (FPOs). Consistent with the trend, over 5,300 agricultural businesses have registered in H1 FY23. The undercurrent shaping this trend has been the launch of a Central Sector Scheme called "Formation and Promotion of 10,000 FPOs" in Feb 2020. FPOs is a group of farmers that typically engages in activities such as marketing, product standardisation, quality control, etc. to assist its members in obtaining a higher price for their goods.

The rise of the health service sector following the pandemic is not surprising. There has been a proliferation of new hospital, clinics, care units, diagnostics centers, and laboratories. The ongoing pandemic and increased emphasis on public health is supporting the growth of these businesses.

While new firms present existing businesses with new relationship opportunities in the form of suppliers, buyers, etc., they also pose a considerable financial and business continuity risk. One in eight businesses that were registered in FY17 have already winded up. However, this is only a conservative estimate. The risks associated with forming relationship with new businesses increase manifold as the size of the new business goes down. Dun & Bradstreet's analysis finds that historically one in two companies with a paid up capital of up to Rs 1 million went out of business within 4 years of incorporation. This underscores the need for sound credit management practices.

Research and Editorial: Dr. Arun Singh, Alok Kumbhat, Deepak Upadhyay, Raj Kiran