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WHITEPAPER

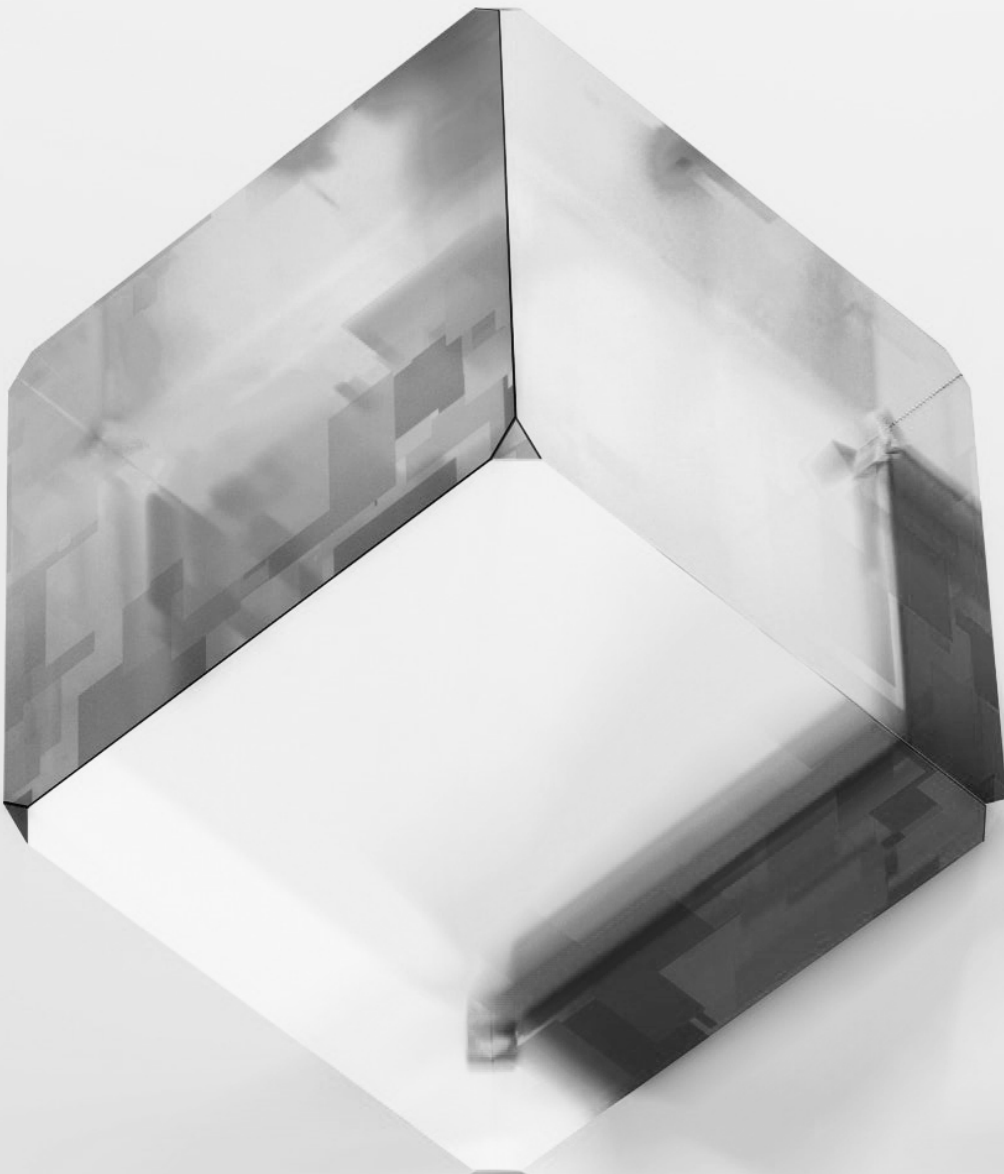
# Business Dynamism in India



JULY 2021

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# EXECUTIVE SUMMARY

As Albert Einstein said, “In the midst of every crisis, lies great opportunity”. Business leaders who realise this are able to see beyond the acute phase of an economic downturn and deliver higher shareholder value by exploiting the emerging dynamics in an economy. Paying attention to the trends in business formation is particularly relevant during times like these as it can help businesses identify areas for investment and strategic partnerships. The COVID-19 pandemic has had its own idiosyncrasies and the implications for businesses have been varied. This whitepaper seeks to bring to the surface the trends in business dynamism in India over the last couple of months. In particular, we address:

- Which sectors have seen the most activity in terms of new business registrations?
- Which sectors are struggling to attract new business?
- Are more businesses being registered in emerging cities?

We hope this whitepaper will be a valuable tool in the hands of business leaders in reorienting their organisations’ goals and priorities, and in turning risks into opportunity.

# KEY TAKEAWAYS

- A total of 195,880 businesses were registered in FY21, a record high
- Birth rate of new businesses showed a healthy pace of increase from 7.8% in FY16 to 10.2% in FY20 and further to 11.6% in FY21, despite the pandemic and subsequent waves of lockdown
- Agriculture sector recorded the highest growth in new business registrations at 103% in FY21. The sector observed 12,368 registrations in FY21 compared to 6,107 in FY20
- Manufacturing sector recorded the second highest growth in new business registrations at 50% in FY21
- Subsectors such as agriculture production (crops), food and kindred products manufacturing, wholesale of non-durable goods, chemicals manufacturing, social services, educational services, computer related services gained significant new registrations. Subsectors such as wholesale trade of durable goods, transportation services, repair services, restaurants, bars, etc. witnessed significant contraction in business registrations
- The share of businesses being registered outside mainstream locations such as Mumbai, Delhi, Bengaluru, Chennai, etc. is increasing. Top 10 cities accounted only for 42% of new business registrations in FY21 compared to 55% in FY17
- 96% of the newly registered businesses had a paid up capital of up to Rs 1 million. Historically, one in two companies in this category went out of business within four years of incorporation

# BUSINESS DYNAMISM DURING THE PANDEMIC

## WHAT IS BUSINESS DYNAMISM AND WHY DOES IT MATTER?

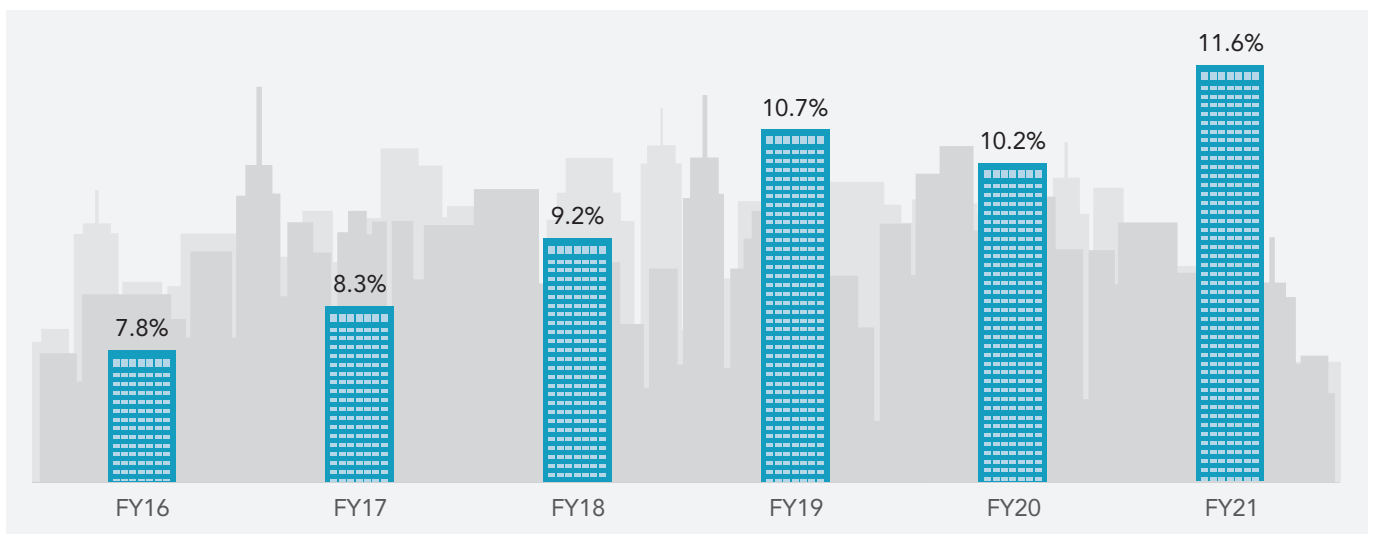
Standard economic theories regard creative destruction as a major driver of productivity growth in an economy. It refers to the process of replacing outdated processes, products and services with new, innovative and disruptive ones. In other words, it refers to the process of reallocating an economy's resources towards more productive uses. Business dynamism can perhaps be described as the velocity at which creative destruction takes place. It can be measured as the rate at which new businesses enter a market and the rate at which existing ones exit. It is essential for a market economy to have healthy levels of business dynamism. 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. Consumers benefit from increased firm

rivalry in two ways. One, price rivalry makes products and services more affordable and hence boosts demand. Two, non-price rivalry results in a higher marginal utility per product or service. These factors in turn create new employment opportunities, increase productivity and economic growth.

## NEW BUSINESS REGISTRATION

Birth rate of new businesses (number of new businesses registered as a percentage of active firms) showed a healthy pace of increase from 10.2% in FY20 to 11.6% in FY21, despite the pandemic and subsequent waves of lockdown. The increase is significant given that there were fewer firms that went out of business in FY21 compared to FY20 – 12,924 vs 75,408. A total of 195,880 businesses were registered in FY21 compared to 158,442 businesses in FY20, growing at 24%.

## BIRTH RATE OF NEW BUSINESSES

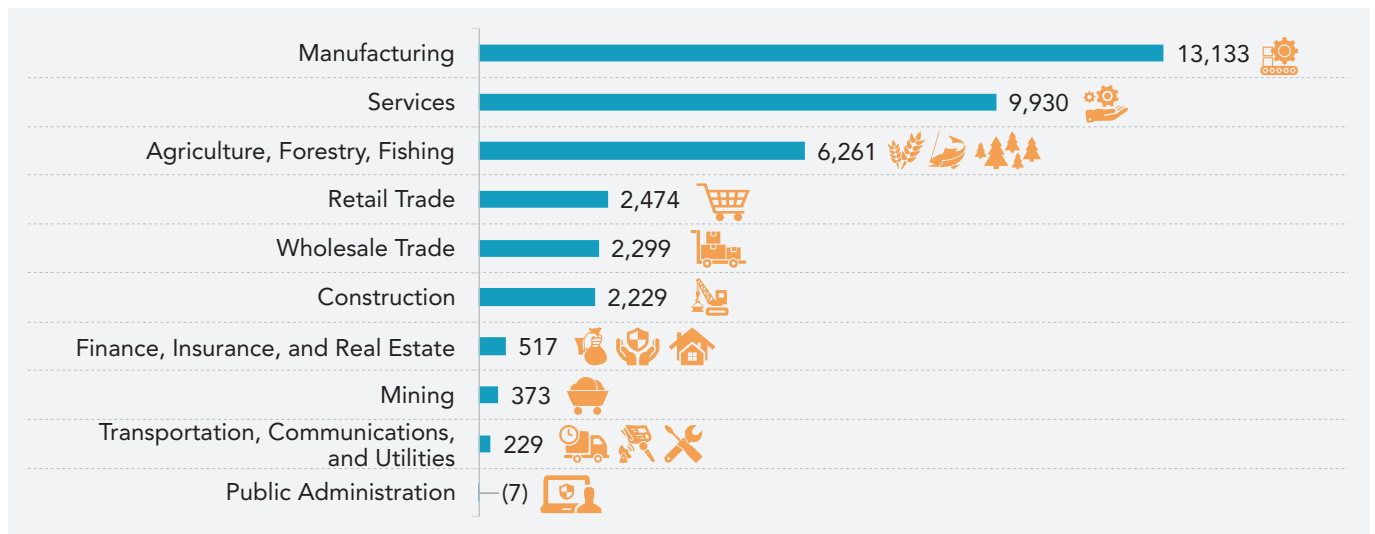


Note: Birth rate data excludes Limited Liability Partnerships  
Source: Ministry of Corporate Affairs, D&B Analysis

## SECTOR-WISE TRENDS IN NEW BUSINESS REGISTRATIONS

- Manufacturing sector witnessed 39,539 registrations in FY21 compared to 26,406 in FY20, an increase of 13,133 firms or a growth rate of 50%
- Services sector saw the highest number of registrations at 83,079 in FY21 compared to 73,149 in FY20, an increase of 9,930 firms or a growth rate of 14%
- Agriculture sector observed 12,368 registrations in FY21 compared to 6,107 in FY20, an increase of 6,261 firms or a growth rate of 103%

## DIFFERENCE IN NEW BUSINESS REGISTRATION – FY21 MINUS FY20



Source: Ministry of Corporate Affairs, D&B Analysis

## SUBSECTOR-WISE TRENDS IN NEW BUSINESS REGISTRATIONS

Looking at new business registration through the lens of a growth-share matrix yields the following four categories:

**Star sectors** – Sectors which not only had a high share of new registrations in FY20 but also witnessed high growth in new registrations in FY21 fall in this quadrant. This includes sectors such as agriculture production (crops), food and kindred products manufacturing, wholesale of non-durable goods, chemicals manufacturing, social services, educational services,

computer related services etc. Higher registrations in agriculture and food manufacturing seems reasonable given that consumers restrict their expenditure to necessities and cut down on non-discretionary spending during economic downturns. Good monsoon season could have provided further impetus. Higher registrations in chemicals manufacturing and social service (hospitals, nursing homes, trusts, etc.) are justified as these sectors are experiencing a pandemic induced spike in demand. Individuals also tend to reskill themselves to improve their future job prospects during recessions. This could

have arguably resulted in higher business registrations in the educational services category. The pandemic has also accelerated the rate of digital adoption as more people now than ever are working and learning remotely. Hence the strong growth in computer related services is unsurprising.

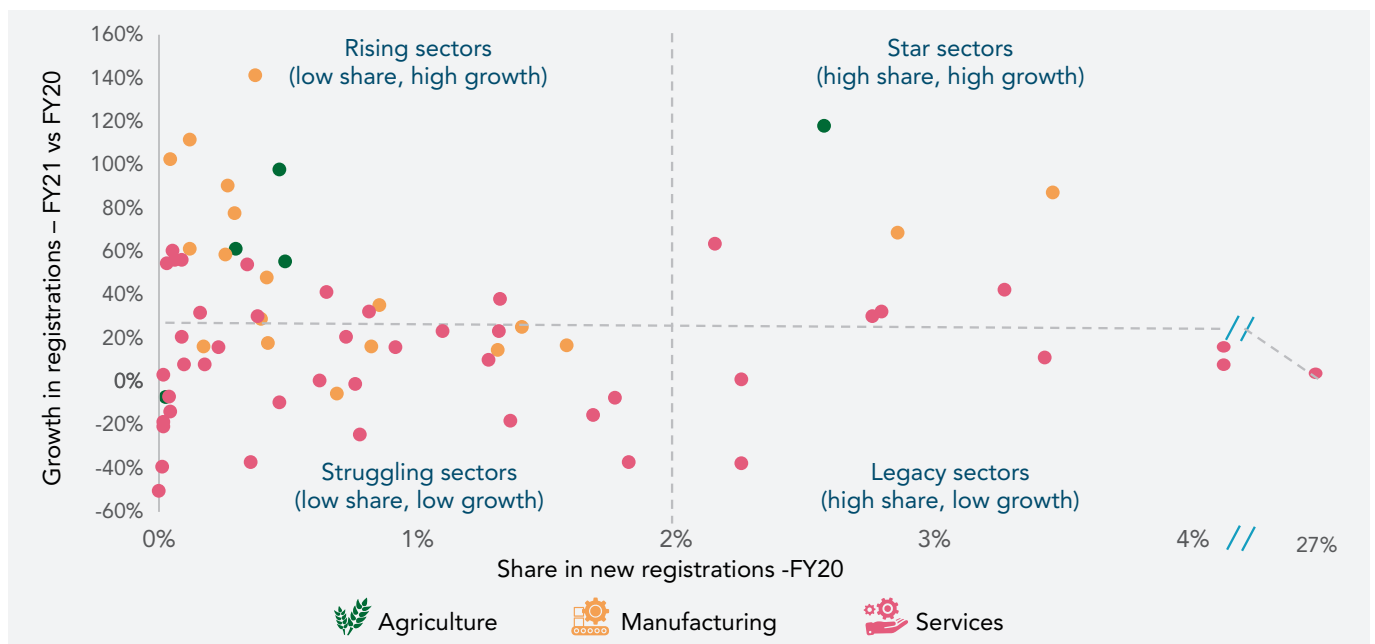
**Legacy sectors** – Sectors which had a high share of new registrations in FY20 but low growth in new registrations in FY21 fall in this quadrant. This includes sectors such as personal services, real estate, communications, etc. Registrations in personal services contracted by 38% in FY21, understandably because of the social distancing measures.

**Rising sectors** – Sectors which had a low share of new registrations in FY20 but high

growth in new registrations in FY21 fall in this quadrant. This includes sectors such as retail stores including food retailers, agriculture services including livestock production, management consulting services, testing laboratories, biological research services, etc. Reasons fueling business interest in these sectors are again all pandemic driven.

**Struggling sectors** - Sectors which had a low share of new registrations in FY20 and also low growth in new registrations in FY21 fall in this quadrant. This includes sectors such as wholesale trade of durable goods, transportation services, repair services, restaurants, bars, etc. Social distancing measures have led to a contraction in business registrations in the aforementioned sectors.

## SUBSECTOR-WISE SHARE AND GROWTH IN NEW BUSINESS REGISTRATIONS



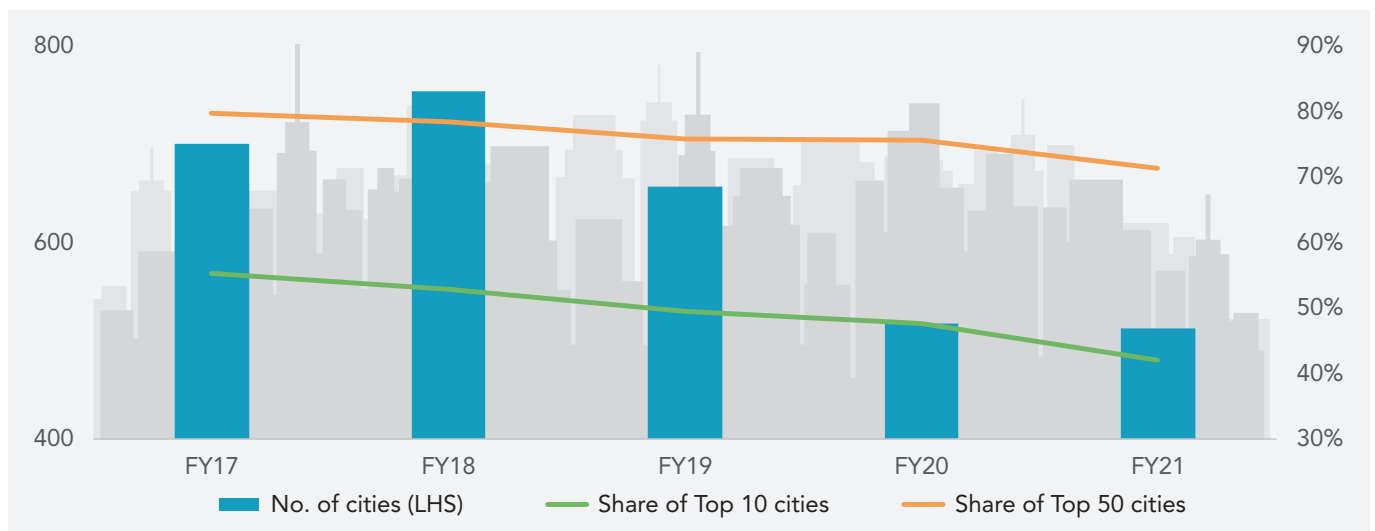
Note: The horizontal line is based on an Ordinary Least Squares regression between variables on the x and y axis.  
Source: Ministry of Corporate Affairs, D&B Analysis

## CITY-WISE TRENDS IN NEW BUSINESS REGISTRATIONS

New business formation is becoming more concentrated. 140,316 businesses were registered in 754 cities in FY18. Fast forward to FY20, 158,442 businesses were registered in just 517 cities. The pandemic seems to have had little impact on this trend as 195,880 registrations were spread across 512 cities in FY21. However, the share of businesses being registered outside mainstream locations such as Mumbai, New Delhi, Bengaluru, Chennai, etc. is increasing. In FY17, top 10

cities alone accounted for 55% of all new business registrations. By FY20, this figure dropped to 48%. The pandemic seems to have further supported this trend. By FY21, top 10 cities accounted only for 42%. Similarly, the share of top 50 cities in new business registration declined from 80% in FY17 to 76% in FY20 and to 71% in FY21. Various factors such as short product lifecycle as in the case of agricultural products, non-tradeable consumables such as healthcare services, etc. could have necessitated business registrations where those products and services are consumed.

## NEW BUSINESS REGISTRATIONS ACROSS CITIES



Source: Ministry of Corporate Affairs, D&B Analysis

## TOP 50 CITIES BY NEW BUSINESS REGISTRATIONS IN FY21

City / District	Rank - FY17	Rank - FY21	Change in Rank
Gautam Budh Nagar	91	31	60
Kamrup	101	48	53
Kochi	51	22	29
Jalna	39	15	24
Puri	48	27	21
Raigad	46	30	16
Ahmednagar	56	40	16
Rangareddy	32	17	15
Ambala	61	46	15
Nashik	34	24	10
Kozhikode	37	28	9
Raipur	50	42	8
Goa	58	50	8



City / District	Rank - FY17	Rank - FY21	Change in Rank
Delhi	8	4	4
Bengaluru	3	1	2
Ghaziabad	15	14	1
Nagpur	21	20	1
Kolhapur	44	43	1
Mumbai	2	2	0
Pune	5	5	0
Chennai	7	7	0
Ahmedabad	9	9	0
Gurugram	10	10	0
Thane	11	11	0
Jaipur	12	12	0
Lucknow	13	13	0
Indore	19	19	0
Thrissur	35	35	0
Dehradun	41	41	0
Surat	20	21	-1
Thiruvananthapuram	31	32	-1
New Delhi	1	3	-2
Hyderabad	4	6	-2
Kolkata	6	8	-2
Noida	14	16	-2
Patna	16	18	-2
Gandhinagar	47	49	-2
Faridabad	22	25	-3
Bhopal	29	33	-4
Ranchi	33	37	-4
Coimbatore	18	23	-5
Vadodara	24	29	-5
Agra	38	45	-7
Navi Mumbai	17	26	-9
Kanpur	25	34	-9
Rajkot	27	36	-9
Varanasi	28	38	-10
Chandigarh	26	39	-13
Visakhapatnam	30	44	-14
Ernakulam	23	47	-24

Source: Ministry of Corporate Affairs, D&B Analysis

## BUSINESS EXITS

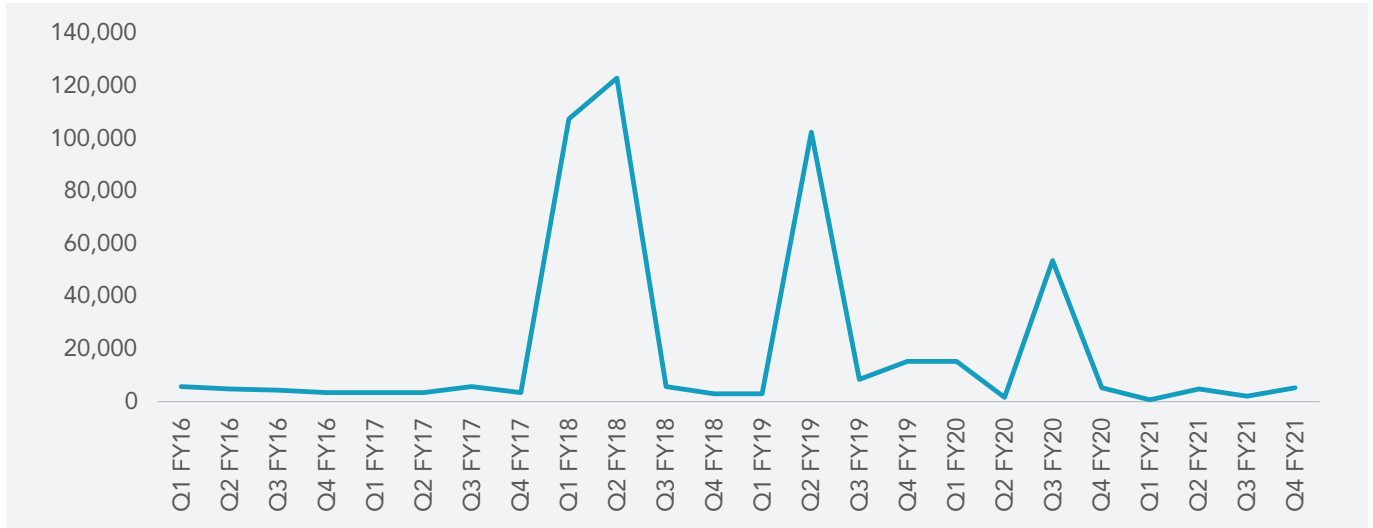
There were 12,924 business exits in FY21 compared to 75,408 in FY20. However, these numbers need to be taken with a pinch of salt. Unlike new business registrations data, the true picture of business exits is reflected in the data with a lag of at least 2 years. In India, the percentage of businesses voluntarily filing for striking off their names from the business

registry is low. Most often the ministry identifies inactive companies and strikes off them from the registry. Section 248(1) (c) of the Companies Act, 2013 provides for removal of name of company from the register of companies, if it is not carrying on any business or operation for a period of two immediately preceding financial years and has not made any application for obtaining the status of a dormant

company under section 455 of the Companies Act, 2013 within such period. Under this clause, 3,82,875 businesses were struck

off during FY18 to FY20, while no companies were struck off during FY21, as per a press release on Press Information Bureau.

### NO. OF BUSINESS EXITS



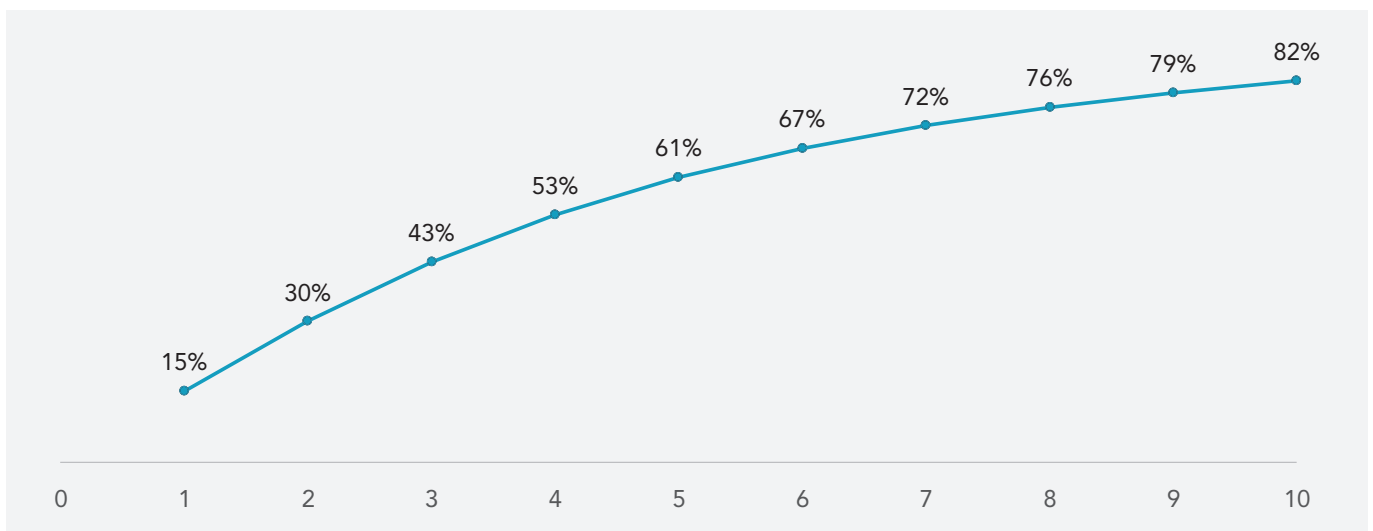
Source: Ministry of Corporate Affairs, D&B Analysis

### HISTORICAL TRENDS IN BUSINESS EXITS BY BUSINESS SIZE

Dun & Bradstreet's analysis on around 200,000 companies that went out of business reveals that size of businesses is positively correlated with average years of survival. Businesses with a paid up capital of up to Rs 1

million survived for an average of 6 years while businesses with a paid up capital of up to Rs 10 million survived for an average of 12 years. Diving further deep into the category of businesses with a paid up capital of up to Rs 1 million, Dun & Bradstreet's analysis finds that one in two companies went out of business within 4 years of incorporation.

### CUMULATIVE % OF BUSINESS EXITS (BUSINESSES WITH A PAID CAPITAL OF UP TO 1 MILLION)



Note: Horizontal axis represents the no. of years since incorporation  
Source: Ministry of Corporate Affairs, D&B Analysis

# CONCLUSION

The pandemic has significantly altered the way in which businesses conduct commerce. This presented itself as an opportunity and many entrepreneurs capitalized on the evolving trends, leading to an increase in business registrations. Much of the new registrations were concentrated in sectors that witnessed a pandemic induced spike in demand. 96% of the newly registered businesses had a paid up capital of up to Rs 1 million. However, historical survival rates of businesses that fall in this category are low. Hence, businesses that partner with these newly registered businesses need to continuously monitor their portfolio and establish red flag alerts to protect their capital.

## HOW DUN & BRADSTREET CAN HELP

With a global coverage of over 400 million businesses, Dun & Bradstreet is uniquely positioned to deliver the trusted data you need to support your third party risk management needs - from initial onboarding checks to ongoing customer monitoring. The database is updated 5 million times a day, allowing our clients to monitor for changes in the risk profile and the operations of their 3rd parties, in addition to keeping their master data up to date. Our products such as D&B Onboard act as a single point of access to information and tools to aid compliance decision making, and D&B credit act as an effective platform to efficiently manage credit risks.

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