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## For India, year of reckoning beckons, says CRISIL

CRISIL today released its India Outlook 2016-17 report, outlining three crucial spurs necessary for the economy next fiscal. These are:

1. Relentless implementation of both policy and executive measures that have already been taken, and those that need to be taken next year. These include progress on UDAY reforms for the power sector, clean-up of bad loans, capitalisation and structural reforms in banking, the promulgation of the bankruptcy code, and revivifying the PPP regime.
2. A good monsoon after three consecutive weather shocks -- two deficient rainy seasons and one spell of unseasonal downpour in early 2015 -- to alleviate rural stress and stoke demand.
3. No further deterioration in the global scenario.

**Says Raman Uberoi, Business Head, Large Corporates, CRISIL Ratings: “While the first factor will have a huge bearing on India’s long-term growth, the other two are important for the pace of demand recovery. So if you look at the larger picture, the impetus to growth will come from domestic factors, while downside risks are mainly exogenous. And that’s why CRISIL believes the next fiscal would verily be a year of reckoning.”**

Of all the sectors of the economy, banking is in the hardest place. CRISIL estimates weak assets of the Indian banking sector will rise to ~8.9% of total assets by next fiscal-end, touching a high of Rs 8 trillion. The stress is high for PSBs with net worth coverage to unprovided weak assets at 1.5 times current net worth.

**“Asset quality pressures will remain intense for public sector banks (PSBs) through next fiscal. That’s because of the downturn in commodities, stretched cash flows of highly leveraged corporates and limited ability of banks in the current environment to recover monies from large exposures that have slipped into NPAs,”** said Uberoi.

CRISIL believes the government’s capital commitment under the Indradhanush plan will come up short because of an increase in Tier I capital requirement of PSBs. Capital-raising will be the biggest challenge for PSBs going forward. Only 10 out of 26 of them may have some cushion over the regulatory minimum Tier I capital by the end of next fiscal, compared to 25 out of 26 in fiscal 2015. Capital infusion, therefore, has become critical. Just to meet Basel III regulations, PSBs will need to raise Rs 1.7 trillion Tier 1 capital up to March 2019.

For private banks, what will save the blushes are revenue diversity, lower exposure to vulnerable sectors and higher proportion of fee income to total income compared with public peers.

As for overall credit quality of India Inc, CRISIL foresees this year’s divergent trend continuing, based on leverage levels. This year, credit profiles of highly leveraged firms took a beating, while that of others strengthened. Next fiscal, while investment-linked sectors will face pressure, consumption and export-linked sectors – such as auto OEMs and components, textiles, pharma and retail – should be on a stable-to-positive footing.

**Says Manish Jaiswal, Business Head, CRISIL Research: “As for revenue growth for corporates -- excluding those in financials and oil sectors – CRISIL believes it bottoming out and accelerating to 8-9% from ~4% expected this fiscal as domestic demand gathers pace. Ebidta margin should improve 30-40 bps on soft commodity prices, improved capacity utilisation and better revenue growth.”**

Net profit growth could be in the range of 12-15% on better topline growth, improved Ebidta margin, falling interest rate, and subdued working capital requirement because of cheaper raw materials.

**“As for investments, we see a moderate pick-up, not a broad-based improvement. CRISIL estimates aggregate investments to grow by 7% in fiscal 2017 driven by infrastructure sectors such as renewable energy, telecom and road. Private sector companies, especially in core sectors, continue to be cautious on committing fresh investments,”** Jaiswal said.

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