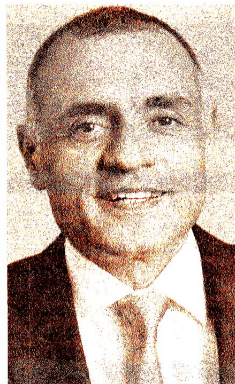


‘Signs of revival, but the bigger picture a worry’

There are signs of revival in investment. Yet the macro picture looks challenging owing to inflation, including elevated oil prices. NARESH TAKKAR, managing director and group chief executive, Icra, tells Abhijit Lele growth capital is very limited. Edited excerpts:



It is early days in the new financial year. How do the macro and micro environments of corporate and economic growth look like?

The macroeconomic scene has deteriorated. There are headwinds. But I must say corporate performance (an aspect of the micro environment) and interactions with companies we have had are showing better sentiment. Generally speaking, sentiment has improved and so has the performance outlook.

Being chief executive, your interaction may be more with AA- and AAA-rated companies or you go even to non-investment grades (BBB and below).

My sample will be more limited but generally I am saying anecdotally that is what I pick up. You know two big events — demonetisation and the roll-out of the goods and services tax (GST) — were disruptive. But I think people are relieved that no big disarray happened because of them. And from the demand perspective, they have started seeing traction.

From the systemic point of view, there are concerns — crude oil prices, interest rate outlook, and elections cycle. So there are macro factors — inflation management and how the monsoon will be, and support prices for various farm products. In addition, there could be fiscal slippage during the election year. But that macro picture apart, overall generally companies are more confident than they were in the past.

What about banks' ability to support growth?

There are challenges, especially with public sector banks. Overall there is a big opportunity in the banking space. The economy is expanding and the investment cycle at some stage will pick up.

Shall we see a pick-up in the investment cycle in the current financial year?

This is only the beginning of the cycle. Capacity utilisation has started picking up. We will see some traction, but not in the first half. Maybe in the latter part of the financial

year. Revival is imminent.

The concern at the macro level is how the investment cycle will be funded. The last investment cycle (from the middle of the last decade to 2011-12) was different with lots of project finance activity in infrastructure, steel, and power.

One striking feature of that phase was the significant overleveraging in the system. Importantly, the equity contribution of the private sector was negligible, meaning the cycle was funded by banks.

How is the new investment cycle going to be different from the previous one?

The nature of projects is going to be different. I do not see many power projects being funded without fuel linkages. In any case we have an adequate capacity and the plant load factor (PLF) is still low. I do not see significant activity in commodity cycles.

The sponsors of new projects are going to be concerned about what happened in the previous cycle. With Insolvency and Bankruptcy Code in place, things are not going to be easy. In the new investment cycle, activities may not be as aggressive as in the past, but qualitatively much better both in terms of kind of sponsors and structuring (financing) of projects. Of course, banks having learnt the hard way, and will exercise prudence. The bigger question is: Who still will have the appetite to fund?

That means a lot of challenges for companies and promoters in raising funds.

Public sector banks are constrained for capital. Growth capital is very limited. Private sector banks have the capital, but they are going to be extremely selective in funding capital expenditure and large projects.

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