

Press Release

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Economy, ecosystems, industry in reset mode: CRISIL

Revenue growth to improve to a 5-year high in fiscal 2018, but with limited upside to profitability

India is witnessing a series of resets, be it in growth expectations, ecosystems or industries, and such structural changes will have more long-term benefits than short-term.

Says Ashu Suyash, Managing Director & CEO, CRISIL Ltd: “The ongoing resets would lead to consolidation in three ways: in consumption, after the demonetisation shock; in infrastructure, through deployment of innovative financing; and, lastly, in market shares because capacities will change hands for various reasons such as intense competition, GST, policy action, formalisation of the economy, and stressed assets resolution.”

In fiscal 2018, absent fiscal and monetary stimuli and unsupportive global environment, CRISIL foresees only a mild recovery in the Indian economy, with GDP edging up 30 basis points to 7.4% over fiscal 2017, driven by pent-up consumption demand after demonetisation.

Releasing its annual India Outlook Series report called ‘*Colours of Growth*’ on the prospects of the economy for the year starting April 1, 2017, CRISIL said India Inc’s revenue growth, driven by consumption, will hit a 5-year high of 8-9% in fiscal 2018. Operating profit margins are likely to remain range-bound as higher commodity prices will take a toll on end-user sectors.

Also, ample headroom in capacity utilisation, stretched balance sheets, and just a moderate pick-up in demand will mean revival in the private sector investment cycle would get deferred to fiscal 2019.

While the decline in interest rates over the past two years is salutary, it won’t be enough to revive the investment cycle till other factors, such as demand and deleveraging, also turn conducive. That means once again, the government and the public sector will have to do the heavy lifting next fiscal, especially on infrastructure side, to ensure growth stays the course.

“What clearly emerges as a confluence of all this is only a mild recovery as the investment cycle remains subdued with low capacity utilisation and stretched balance sheets. The ongoing resets, declining interest rates and new financing tools such as Expected Loss ratings for operational infrastructure projects, will provide a more robust and sustainable foundation for long-term growth,” Ashu Suyash added.

Meantime, the credit quality of India Inc is showing signs of gradual recovery driven by firm commodity prices, stable macros, impact of sustained structural reforms, improving capital structure and lower interest costs.

CRISIL believes the banking sector will see lower slippages to NPAs. Signs of turnaround are increasingly visible in some commodity-linked sectors (especially metals) and in the mid-sized EPC segment.

Nevertheless, the underlying fragility will continue and keep NPAs at elevated levels given some sectors are continuing to struggle.

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