Catalyst

# Industry Notes.....Jun 2018

Dear friends,

We are entering into the election year and all the uncertainty related to the same is visible in the financial markets. The macro has also not been helpful owing to news flow from US on tariffs and resulting impact on exports/ currency from the emerging markets. The foreign currency inflows into Indian markets has slowed down and there is apparent flight to safety in stock picks or redeployment of funds by both domestic and foreign funds. The impact on small-midcaps in equity markets has been terrible and certain sectors like cement, other building materials and chemicals have been downhill considerably. Only good news or hypothesis can be that earnings for the last two years had been impacted by demonetization followed by GST implementation; and this fiscal year should be normal with no major reforms announcement and corporates can consolidate on their markets and business practices. The capital expenditure has been subdued and that allows most of the manufacturing sector to reap the benefits of operating leverage. The business services section, particularly related to air traffic, tourism, professional services and automation continues to do well and there is an emerging scale of activity and market size in each one of them to draw more entrants.

The biggest question facing the Indian banking system is the future of corporate banking in India. There is clear conscious effort to step up the lending effort in retail lending and increase the market share. This space rightfully belongs to the banking system as it suits well with the risk management and asset-liability management for the banks. The retail credit historically has been pioneered in India by the non-bank companies and foreign banks, but with adoption of technology and setbacks in corporate lending, there is evident push in the sector by banks – both private and public, which is good for the borrowers as well. That means, there is space vacant in corporate lending and that has given birth to credit funds targeting wholesale lending. This would help to an extent, but the lending will be calibrated quite scientifically to risk-reward and that would mean that the credit spread across the rating spectrum will widen considerably and thereby significant increase in interest cost for BB to A rated corporates. Hopefully, the credit default swaps will be introduced in Indian markets soon and that will establish a sanity to the corporate risk – reward system. A properly calibrated risk matrix also helps in the long run on the prudence that is exercised at the borrower end in using the credit for enhancing the business growth. The overall cleanup in Indian corporate lending system may appear drastic but the emerging scenario coupled with legal powers will augur a new era which will ensure long term sustainability of credit market. The immediate impact is being faced by corporates in working capital financing and infrastructure projects. The traditional means of low cost/ high risk tool of non-fund limits are facing withdrawal rapidly from the banks and that must be replaced by costlier means of term debt or equity financing. The small to medium companies will find their interest cost and overall availability of working capital funds shrinking, which has immediate impact on their earnings growth/ sustainability in the immediate term. The other big issue is the project financing and that's vital to revival of the capital goods sector and their overall contribution to economy. Both banks and other financing entities continue to remain shy of project financing and government support will be most crucial in this sector. Even the well-conceived HAM projects are running short on equity tie-up and lender interest to help close the financing.

We, at IMAP, continue to pursue business and financial solutions for our chosen sectors. We have analyzed certain sub-sectors like scientific writing, medical communication, engineering design, online gaming and others. It's heartening to observe the depth of these niche sectors with expected growth, competitiveness and number of players already well entrenched in the same. We continue to work on distress in corporate sector due to debt overburden and have been successful in finding solutions which are creative and maximizes the value for all stakeholders in the given situation.

Looking forward to your continued support.

*Ashutosh Maheshvari*

Chairman

*ashutosh@imapindia.in*