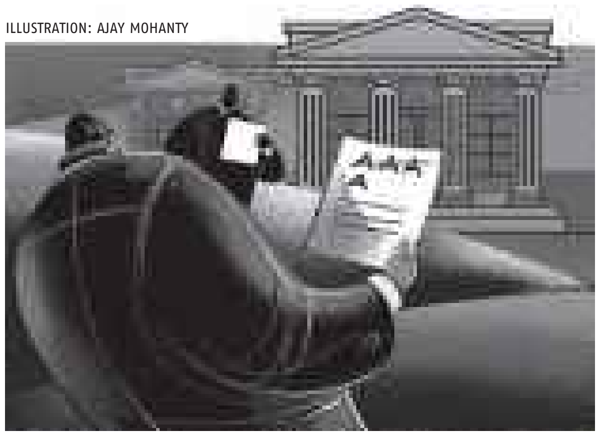
Covid-19, recession cloud credit quality outlook, says CRISIL

Moody's, too, revises outlook on Indian banks to negative

ABHIJIT LELE
Mumbai, 2 April

ILLUSTRATION: AJAY MOHANTY



The intensifying impact of Covid-19, coupled with a looming global recession, has cast an unprecedented shadow over the credit quality outlook of India Inc, which was already struggling due to the economic slowdown, said CRISIL.

The impact of a slowing economy has started reflecting in rating actions with downgrades (469) outnumbering upgrades (360) in H2FY20. CRISIL's credit ratio slid to 0.77 in H2, compared to 1.21 in H1FY20.

However, timely measures by the Reserve Bank of India (RBI) — to permit banks to offer moratorium on servicing of loans until May 2020 — comes as a huge breather.

Over the near-to-medium term, however, the credit quality trend will be driven by the ability of companies to rebound from the near-stagnation in demand.

Gurpreet Chhatwal, president of CRISIL Ratings, said: "India Inc's credit quality will deteriorate in the near term. Its study of 35 sectors — both from manufacturing and services — however, shows sharp variation in resilience in a post-Covid landscape. Strong balance sheets or continuing demand will support some sectors."

These 35 sectors account for 71 per cent of debt (excluding financial sector) in CRISIL's rated portfolio. Around 4 per cent of debt is in sectors that are least resilient, such as airlines, gems and jewellery, auto dealers, and real estate, given the discretionary nature of goods and services, and weak balance sheet.

Nearly 44 per cent of debt is in sectors expected to be in the high-resilience category. Among these, pharmaceuticals, fertiliser, oil refineries, power & gas (distribution and transmission) benefit from the essential nature of products and, in some cases, from government support.

Nearly 52 per cent of debt is in sectors expected to be moderately resilient, such as auto manufacturers, power generators, roads, and construction.

In a similar development, Moody's downgraded the outlook on the Indian banking system from "stable" to "negative" on Thursday. This follows the adverse fallout of the virus outbreak, coupled with a rise in defaults.

Banks' asset quality is expected to deteriorate across the corporate, SME and retail segments, leading to pressure on profitability and capital, Moody's said a statement.

Sectors most vulnerable to coronavirus disease

	Rated debt (₹cr)
Steel	32,800
Residential and commercial real estate	30,100
Airlines	15,100
Gems & jewellery	13,000
Automotive dealers	9,300

Source: CRISIL presentation

Factors affecting FY21 outlook

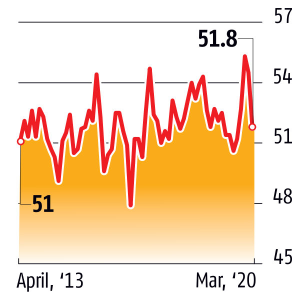
- High intensity, spread and duration of the Covid-19 pandemic
- Prolonged consumption slump
- Slower-than-expected pace of economic recovery
- Fiscal and monetary policy measures

Manufacturing PMI at 4-month low

Down to 51.8 in March on drying export orders, weak demand

SUBHAYAN CHAKRABORTY
New Delhi, 2 April

HOW IT MOVED



Note: A reading above 50 denotes expansion, while below 50 denotes contraction
Source: IHS Markit
Compiled by *BS* Research Bureau

Growth in the manufacturing sector fell to a four-month low in March, with export orders crashing and domestic demand rising marginally, said a monthly survey released on Wednesday.

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) stood at 51.8 in March, after February's 54.5 — much below the eight-year high of 55.3 in January. In PMI parlance, a figure above 50 means expansion, while a score below that denotes contraction.

The beleaguered sector had last contracted in October, when the index fell to a two-year low of 50.6. However, official data shows contraction has remained entrenched in the sector. Experts say the 21-day lockdown and its impact on business could be a storm too strong for the sector to weather in April.

India's overall industrial production rose 2 per cent in January. However, some economists see an increase in core sector output as a sign of comeback in terms of factory output. Core sector industries expanded 5.5 per cent in February, up from 1.4 per cent in January. However, this was before the lockdown started.

According to the PMI, manufacturing production in March increased at a much more subtle pace than February, as companies struggled to manage the fallout of order cancellations and unfavourable market conditions.

"The Indian manufacturing sector remained relatively sheltered from the negative impact of the global coronavirus outbreak in March. However, there were pockets of disruption and a clear onset of fear among firms," said Pollyanna de Lima, principal economist at IHS Markit.

The data for March showed that exports contributed to the expansion in total sales. However, new orders rose at a much lower pace, given the logistical challenges global procurers had to deal with.

However, foreign orders expanded for the 29th month in a row, according to the survey. As of end-2019, manufacturers started catering to overseas demand again, to make up for the lax domestic demand.

However, subdued sentiment because of the virus outbreak has restricted hiring. Hiring growth has been weakest in the last four months. In November, the survey had noted massive lay-offs.

Signs of supply-side disruption also crept into the manufacturing sector in March, with vendor performance deteriorating for the first time since October. Anecdotal evidence pointed to the delays being caused by shortages at some suppliers. However, the overall lengthening in average lead time was marginal.

While average cost burdens increased for the fifth straight month, inflation was moderate — one that was negligible by historical standards. Input goods like chemicals, food, metals, paper, plastics and textiles — mostly from China — continued to get costlier as Chinese factories started reopening only towards the end of March.

On the other hand, charge inflation continued to rise, but also moderated as compared to February. Higher output prices have been a trend in the manufacturing PMI survey for over a year, it noted.

Business sentiment remained under pressure, due to uncertainty over recovery in domestic demand. Positivity hit its joint-weakest level since the PMI series' inception in April 2012 (alongside April 2015), Markit Economics believes.

It has warned of grave times ahead. "Should the trajectory of injections continue in the same vein, the Indian manufacturing sector can expect a much sharper negative impact in the coming months," said Lima, author of the report.

Cash transfer to women PMJD a/c holders from today

Banks to follow a staggered approach; people to be called based on their account number

SOMESH JHA
New Delhi, 2 April

Around 200 million women will start receiving ₹500 in their bank accounts from Friday under the Pradhan Mantri Garib Kalyan Yojana, the government's relief package for the poor in light of the coronavirus disease (Covid-19).

However, the central government has told banks to ensure that social distancing is maintained at the branches, amid concerns that the beneficiaries might line up at banks to withdraw the money that is to be transferred by the government in their accounts opened under the Pradhan Mantri Jan-Dhan Yojana. The Department of Financial Services, under the finance ministry, has issued guidelines to all banks to ensure that customers are asked to come on different days, depending on their account numbers.

For instance, account numbers ending with 0 or 1 will be asked to report to their banks on Friday, those with 1 or 2 on Saturday, 3 or 4 on Monday and so on. A text message will be sent to customers to inform them about the arrangement.

Prime Minister Narendra Modi also told the chief ministers in a video conference on Thursday to "ensure staggered release of funds to the beneficiaries under PM Garib Kalyan Yojana to avoid crowding at banks".

The women beneficiaries will receive ₹500 per month for the next three months, in order to deal with the impact of the Covid--19 pandemic. The move was announced by Finance Minister Nirmala Sitharaman on March 26 who said that this will help women "run their household during this difficult period". The Centre will spend about ₹31,000 crore towards the cash transfer.

However, soon after the announcement, many beneficiaries had rushed to the bank branches in the hope that the cash transfer has already taken place, resulting in a crowd at the banks. On March 30, the finance ministry had to issue a statement requesting bank customers to not line up at the branches as the date and time of the transfer will be notified to them.

"In order to maintain social distancing and orderly withdrawal of money for beneficiaries, it would be appropriate to stagger the arrival of account holders at branches, banking correspondents and ATMs for withdrawal of the money," the communiqué said.

The banks have been told to publicise the fact that the beneficiaries can withdraw the money any time when required and not necessarily when it's credited.

"If the beneficiary needs to draw the money immediately, she may approach the bank branch or banking correspondent as per the schedule," the ministry said.