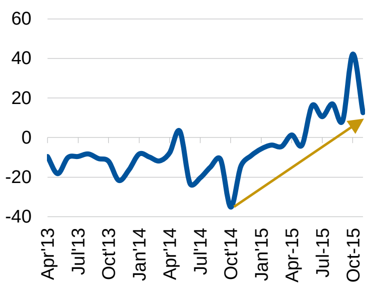
FY17 Corporate Outlook – A Summary

GDP growth-led improvement in most sectors; International competition to affect a few

Outlook Summary

Figure 1

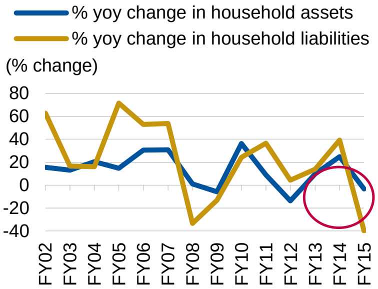
Consumer Durables Growth



Source: CSO, Ind-Ra

Figure 2

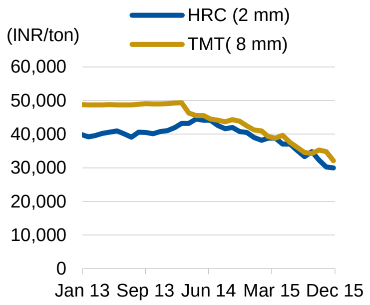
YoY % Change in Household Assets and Liabilities



Source: RBI, Ind-Ra's analysis

Figure 3

Indian Steel Prices



Source: CMIE; Ind-Ra

India Ratings and Research (Ind-Ra) expects corporate India's performance in FY17 to be influenced by three key factors: strong GDP growth, significantly lower commodity prices and the opportunities thrown up by the government's large number of plans to create public infrastructure.

Ind-Ra's projection of GDP growth of 7.9% in FY17 is based on the expectation of an improvement in private consumer expenditure to 8.4% and gross fixed capital formation to 8.3%. Growth in household liabilities has been decreasing year-on-year and is pointing to increased headroom for household expenditure. This, coupled with low inflation and low interest rates, leads to an expectation of a higher consumer spend. Consumer durables have also seen steady growth which is likely to continue.

The government's plans to improve road network, build dedicated freight corridors, create industrial corridors, create smart cities and associated infrastructure, which would all require large investments. These would also have a substantial impact on core industries such as steel, cement, power and construction and would be the key to improve capacity utilisations in these sectors. While only a few plans are likely to fructify during the course of the next year, any increase in investment related demand is likely to improve the profitability and credit metrics of these sectors.

The other important influencing factor is the prices of commodities, most of which have fallen due to a decline in global industrial activity, especially in China. Price falls in oil and gas, which are mostly imported, have substantially reduced the subsidy burden and freed up resources for the Indian government, which are likely to be channelled to take up infrastructure projects. However, the decline in prices of other commodities, such as steel and other metal products, has severely dented the profitability of Indian producers, especially at a time when they have created large capacities anticipating demand from infrastructure creation.

Overall, the profitability and therefore credit metrics are likely to improve for most industries as capacity utilisation increases due to growth. The credit metrics of producers who face international competition, such as metal producers and synthetic textile manufacturers, are likely to decline in FY17.

Summary of Sector Outlooks Progression

Sector Outlook	2013	2014-15	2016	2017
Automobiles	Stable	Negative	Stable	Stable
Auto Parts Suppliers	Stable	Negative	Stable	Stable
Cement Manufacturers	Negative	Negative	Stable	Stable
Construction	Negative	Negative	Stable	Stable
Fertilisers	Stable	Negative	Negative	Stable
Oil and Gas	Stable	Stable	Stable	Stable
Pharmaceuticals	Stable	Positive	Positive	Stable
Power	Stable	Negative	Negative	Negative
Real Estate	Negative	Negative	Negative	Negative
Steel	Stable	Negative	Negative	Negative
Textiles	Negative	Stable	Stable	Stable

Stable Negative Positive

* year indicated is FY ending on March 31st
Source: Ind-Ra

The sectoral outlook has changed only for fertiliser and pharmaceuticals. The fertiliser industry has benefited from the fall in commodity prices. The fall in the prices of gas and urea is likely to reduce the subsidy bills of the government resulting in a quicker payment of subsidies. The consequent expectation of an improvement in debt levels of urea manufacturers, is an important factor in the outlook change.

Pharmaceuticals has however been affected by regulatory actions which has taken away the positive edge. Increased actions of USFDA against Indian facilities and expansion of drugs under price control in India have impacted the growth and profitability.

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Summary of Outlooks

Growth	Strong
Profitability	Likely to improve
Credit Metrics	Likely to improve

To access detailed FY17 Auto Outlook CLICK HERE

Auto

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE (2015: STABLE)

Ind-Ra expects industry growth to be led by strong growth in the medium & heavy commercial vehicles segment, which is benefiting from a fall in diesel prices and subsequent improvement in the profitability of fleet operators. Passenger vehicle sales growth might also improve in FY17 with increased household consumption expenditure. Profitability is also likely to be higher both on a reduction in input prices, especially of metals, and more importantly due to higher operating leverage as capacity utilisation increases from the low 50% levels.

Growth	Strong
Profitability	Likely to improve
Credit Metrics	Likely to improve

To access detailed FY17 Auto Suppliers Outlook CLICK HERE

Automotive Suppliers

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE (2015: STABLE)

Auto ancillaries are likely to benefit from the strong growth of commercial vehicles and an improvement in passenger vehicle sales. The increase in profitability on account of a decline in commodity prices is likely to be limited given the pass through nature of contracts with OEMs. Exports are also likely to grow significantly during FY17 at more than 12%. Automotive suppliers are likely to also benefit from increased revenue diversification from supplies to railways, defence, and aerospace sectors. The industry has also seen a decline in new project announcements which is likely to result in strong cash inflows during FY17, leading to an improvement in credit metrics.

Growth	Moderate
Profitability	Stable
Credit Metrics	Stable

To access detailed FY17 Cement Manufacturers Outlook CLICK HERE

Cement Manufacturers

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE (2015: STABLE)

Demand growth for cement is likely to be low due to the falling sales of the real estate sector. While demand due to infrastructure growth would mitigate this somewhat, the overall growth is likely to be less than that of GDP growth. Capacity utilisations in some regions may see a drop, although overall profitability is likely to be maintained due to the lower cost of fuel and freight, which is a result of the fall in coal and diesel prices. It is noted that the price of cement has been higher in 2015 despite the lower demand and falling input costs. The higher profitability has also resulted in strong credit metrics for most large players in the sector, and this is likely to continue for companies which do not take up large debt-funded expansions.

Growth	Moderate
Profitability	Likely to improve
Credit Metrics	Gradual improvement

To access detailed FY17 Construction Outlook CLICK HERE

Construction

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE (2015: STABLE)

The construction sector is characterised by a large number of companies under financial stress. Accounting for 25% of the CDR debt, the sector remains vulnerable due to low liquidity. Cash flow from operations is likely be negative for FY16 and remain so despite a gradual improvement in FY17. The borrowing conditions continue to be difficult due to the stretched balance sheets and already large exposure of banks to this sector. However for companies which have sufficient liquidity to execute projects, the profitability is likely to improve due to the higher margins from contracts won after FY14. While the improvement in profitability and credit metrics is likely to be gradual and drawn out, asset sales used for reducing debt may lead to rating upgrades.

Growth	Weak
Profitability	Likely to improve for Urea producers; fall for others
Credit Metrics	Stable

To access detailed FY17 Fertilisers CLICK HERE

Fertilisers

Sector Outlook: STABLE (2015: STABLE To NEGATIVE)	Rating Outlook: STABLE (2015: STABLE)

Regulatory actions will continue to determine the credit health of the sector. The reduction in the subsidy bill due to the falling price of gas and imported urea is likely to be the key driver of profitability of urea producers during FY17. A lower subsidy burden on the government due to the lower cost of imported urea is likely to lead to a reduction in the subsidy dues of domestic urea producers, lowering their debt levels.

Profitability of non-urea producers however is likely to decline as lower international prices make trading in DAP more attractive.

Growth	Strong
Profitability	Stable
Credit Metrics	Stable

To access detailed FY17 Oil and Gas CLICK HERE

Oil and Gas

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE (2015: STABLE)

Demand for petroleum products is likely to be strong due to lower product prices and increased sales of passenger and commercial vehicles. The profitability thus is likely to be stable despite the decline in crude prices both for upstream producers and refining companies. The net realisation of upstream companies will not be affected by the fall in crude prices as their share of subsidy sharing will correspondingly reduce. The gross refining margins have remained strong and the debt of most of the exporting refiners has also been dollarised. The decline in gas prices is likely to lead to a decline in the profitability of upstream producers.

Growth	Moderate
Profitability	Stable
Credit Metrics	Stable

To access detailed FY17 Pharmaceuticals Outlook CLICK HERE

Pharmaceuticals

Sector Outlook: STABLE (2015: POSITIVE)	Rating Outlook: STABLE (2015: STABLE)

The pharmaceutical industry's growth rates have seen a steep decline during 2015, which is likely to continue in FY17. Export growth has been affected by increased USFDA actions against Indian manufacturing facilities which have come at a time when the value of drugs going off patent would be at its lowest in the last five years. Profitability of domestic pharmaceutical players remains vulnerable to expansion of drugs covered under the Drug Price Control Order. However, the cash flows of most pharmaceutical companies continue to be robust and free cash flows are expected to be positive in FY17 as well. The credit metrics of companies in this sector are likely to be strong and impacted only by events such as large debt-funded acquisitions or USFDA actions against multiple facilities of the same company.

Growth	Weak
Profitability	Likely to fall
Credit Metrics	Stable

To access detailed FY17 Power Outlook CLICK HERE

Power

Sector Outlook: STABLE (2015: STABLE)	Rating Outlook: STABLE To NEGATIVE (2015: STABLE To NEGATIVE)

Plant availability has improved and might continue to be high due to better availability of coal. However, plant load factors are likely to decline as capacity addition has been higher than demand growth. For producers on production-based incentive as against availability based incentive, the profitability is likely to decline. A sluggish increase in industrial demand, drive towards improved efficiencies, increased use of power efficient devices and increased production from renewable sources are likely to keep the plant load factors of thermal power producers low. The financial turnaround of discoms continues to be an important factor in determining the financial health of the sector.

Growth	De-growth
Profitability	Stable
Credit Metrics	Deterioration

To access detailed FY17 Real Estate Outlook CLICK HERE

Real Estate

Sector Outlook: NEGATIVE (2015: NEGATIVE To STABLE)	**Rating Outlook:** NEGATIVE (2015: STABLE)

Large unsold inventories, slowing down of sales volumes, and increasing property prices characterise the real estate industry which is likely to see financial stress in FY17. The inflation of residential real estate prices, despite a fall in input costs, has led to unaffordable prices and to significant lowering of demand. Revenue in the sector is likely to continue to fall in FY17 and debt levels might increase as real estate companies try to bridge the cash flow gap through borrowings. Many real estate players have been observed to tap higher cost NBFC/private investor funding to refinance bank loans, which will increase the cost of borrowing and lead to further stress. Demand for commercial space is likely to be stable owing to the new jobs being created in the IT/ITES and e-tailing segments.

Growth	Weak
Profitability	Likely to fall
Credit Metrics	Likely to weaken

To access detailed FY17 Steel Outlook CLICK HERE

Steel

Sector Outlook: NEGATIVE (2015: NEGATIVE)	**Rating Outlook:** NEGATIVE (2015: NEGATIVE)

Ind-Ra expects the steep fall in steel product prices to affect the debt paying abilities of steel producers during FY17. Since the fall in global demand, and Chinese excess capacity are unlikely to moderate in the near term, steel price recovery may only be muted over FY17. While domestic demand is likely to grow in line with GDP growth, the higher capacities of Indian producers and intense competition from imports are likely to be the challenges for increasing the capacity utilisation of domestic players. Duty intervention, which has the potential to improve profitability of steel producers, is unlikely to be used extensively. Other methods, such as a floor price for imports, if used, may provide relief for domestic steel producers.

Growth	Weak
Profitability	Likely to fall for synthetic textiles; stable for cotton
Credit Metrics	Stable

To access detailed FY17 Textiles Outlook CLICK HERE

Textiles

Sector Outlook: STABLE (2015: STABLE)	**Rating Outlook:** **Cotton:** STABLE (2015: STABLE) **Synthetics:** NEGATIVE (2015: NEGATIVE To STABLE)

Stable domestic demand and challenges in exports are likely to moderate growth in the sector. Lower realisations for both cotton and synthetic textiles consequent to the fall in raw material prices might also dampen growth. While margins are expected to improve for cotton textiles manufacturers, synthetic textiles manufacturers are likely to face margin pressures due to overcapacity and competition from China. Exporters will also face headwinds as Indian rupee appreciates against the currencies of competing countries, making exports from India less competitive.