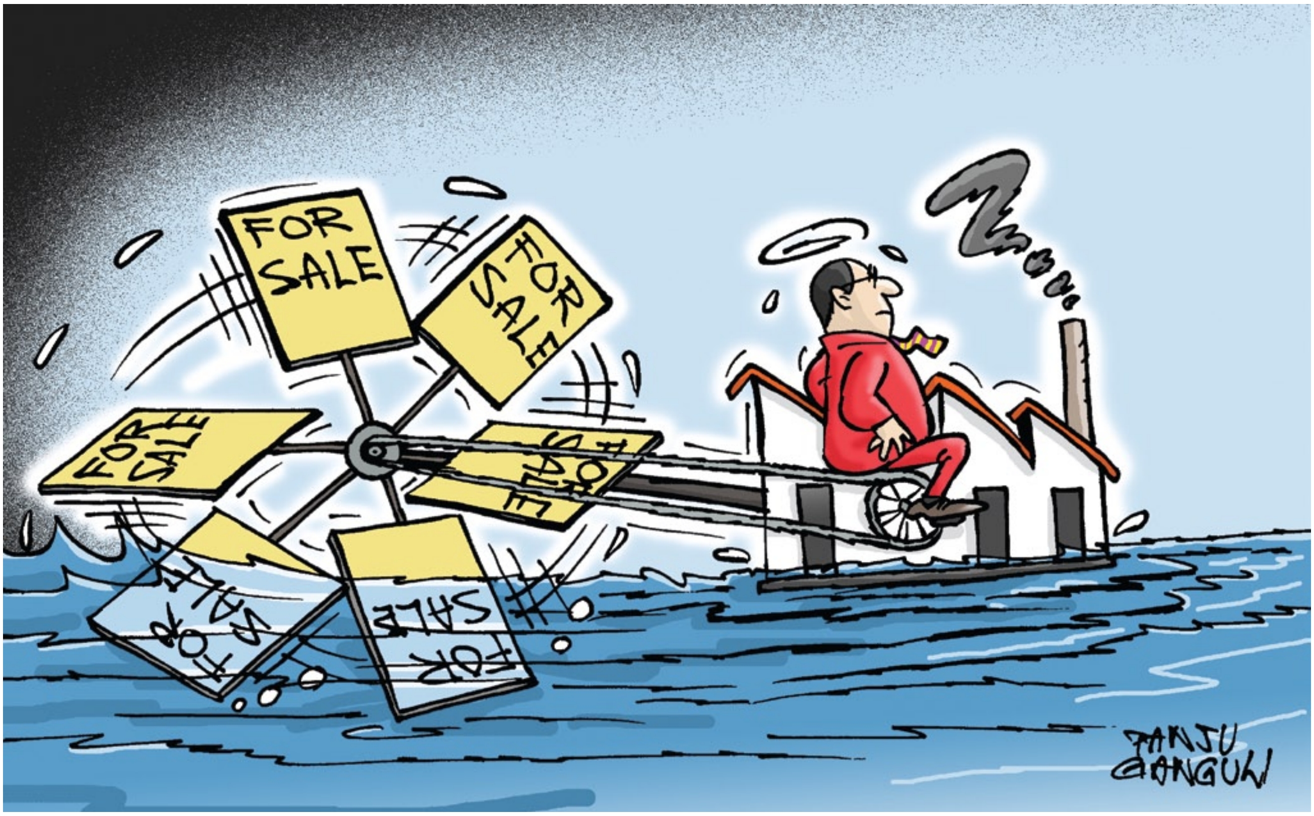
'On sale' tag

Corporate balance sheets are stretched and the highly leveraged companies are looking at asset sales, readying for the next phase of growth



Soumya Kanti Ghosh
group chief economic adviser, **SBI**

During the last few years, the biggest ever sale of Indian corporate assets has been underway and every single day 'deal street' is witness to the action. Sample this:

- At Bombay House, **Tata** sells Corus in the UK;
- The **Anil Ambani-led Reliance group** sells 49 per cent in electricity generation and transmission in Mumbai, cement and its portfolio of road projects;
- **GVK** sells 33 per cent of its stake in Bengaluru airport, as well as its controlling stake in Mumbai airport, besides its complete road assets;
- **Jindal Steel** sells 49 per cent of its rail business, 5 per cent of its energy exchange and also its 3,500 MW power plant;
- The Ruia brothers of **Essar** enter into an agreement to sell a large portion of its oil business; they also sell a huge stake of the steel business;
- **DLF** puts its mall in Saket, Delhi, on block, along with 40 per cent of all its retail assets and land assets;
- **GMR** sells its highway projects, South African coal mine, two coal mines in Indonesia, Istanbul Airport, 70 per cent in a Singapore power project;
- Manoj Gaur-run **Jaypee group** sells its cement assets to UltraTech and power assets to JSW Energy, as also its stake in the Yamuna Expressway;
- **Lanco** puts its assets in power generation in Andhra on the block;
- **Dhoots** of Videocon sell the D2H business, its telecom spectrum in six circles, as also its oil assets in Mozambique;
- **Renuka Sugars** sells its power, sugar and

bio-fuels business in Brazil;

◆ **Sahara** group's 86 real estate assets are put on sale; so is its 42 per cent share in Formula I, the hotels (Mumbai's Sahara Star, Grosvenor House Hotel in London, New York Plaza Hotel, The Dream New York Hotel) and the four aeroplanes; and

◆ nearly all the assets of the onetime liquor-cum-aviation baron, **Vijay Mallya** await takers.

While these are some of the large deals that have been announced or doing the rounds, it is only the tip of the iceberg. There are many more still at discussion stage in the board rooms and will soon be revealed. The common thread in most of these assets bearing the 'on sale' tag is that these companies have been drowned in debt, either on account of sickness in the sector they come from, or the promoters' 'willful defaults'.

How did it all come to this day of sell-offs? "Ambitious plans, global aspirations, euphoric projections with actual numbers turning its back, adverse geo-political developments and the after effects of Lehman Brothers crisis were some of the factors akin to rubbing the salt on the wound," explains Soumya Kanti Ghosh, group chief economic adviser, State Bank of India (SBI). "But corproates are vying to shed that extra flab". SBI's study, headed by Ghosh, indicates that 763 companies have reduced their debt in 2015-16 by ₹90,878 crore (*see table*). This works out to about 15 per cent of the outstanding debt as on March 2015. In fact, the top 20 companies had a debt reduction of ₹45,924 crore in 2015-16.

India Ratings & Research, a Fitch group company, has released a report analysing the asset funding trend of the top 500 corporate borrowers, assessing the utilisation of the debt raised between 2010-11 and 2015-16. Of the top 500 corporate borrowers, 203 have an interest cover of less than 1x in 2015-16. "The growth in operating cash flows has been struggling to keep pace with the burgeoning debt levels," says Rakesh Valecha, senior director, India Ratings. "Borrowing conditions could deteriorate for these corporates due to their stretched balance sheets. As such, it will be extremely difficult for these corporates to improve leverage to the pre-2017-08 level during this decade".

Sudip Sural, senior director, corporate & government ratings, CRISIL, who also looks at the same period (2010-11 to 2015-16), saw significant capital investments by the private sector. "This led to an increase in leverage levels. At the end of fiscal 2016, nearly half of corporate debt was with companies having leverage (debt to net worth) of more than two times, as compared to a third of debt being with such companies in fiscal 2011," observes Sural.

"The overenthusiasm at the management level in many of the companies to expand and grow too fast, supported by easily available debts from banks, has led to this situation of over-leveraging," explains Pavan Kumar Vijay, founder, Corporate Professionals, Delhi. "In the past few years, the equity investment has not grown as fast as the availability of bank finance, but there are other cases of mismanagement, mis-utilisation or diversion of funds too".

"Corporate debt has continued to rise even after the 2008 crisis, despite the fact that they

Top sectors by debt increase in FY16 over FY15

Sector	Total Debt (₹ crore) March 2016	March 2015	Increase	Share %
Power Generation & Distribution	8,89,841	7,96,792	93,050	12
Telecom Service	3,30,893	2,66,760	64,132	24
Trading	2,13,155	1,84,962	28,193	15
Steel	3,74,684	3,52,788	21,896	6
Textiles	1,36,656	1,15,467	21,190	18
Pharmaceuticals	87,057	71,505	15,552	22
Infra. Developers & Operators	1,19,367	1,07,815	11,552	11
Refineries	2,78,451	2,68,190	10,261	4
Mining & Mineral products	76,871	67,008	9,863	15

Some companies in Power Generation & Distribution also reported reduction in debt. From the list of 5,352 corporates (sans Bank and Finance with net sales of above ₹100 crore), it is observed that around 15 per cent (763 companies) have shown reduced level of debt in FY16 over FY15 to the tune of ₹90,878 crore

Top sectors by debt reduction in FY16 over FY15

Sector	Total Debt (₹ in crore) March 2016	March 2015	Increase	Share %
Power Generation & Distribution	42,553	52,383	(9,830)	-19
Automobile	23,109	30,342	(7,233)	-24
Steel	47,976	54,489	(6,514)	-12%
Capital Goods - Electrical Equipment	9,388	15,477	(6,089)	-39
Refineries	64,130	69,677	(5,546)	-8%
Pharmaceuticals	19,478	23,502	(4,024)	-17
Chemicals	10,167	13,789	(3,622)	-26%
Realty	15,972	19,157	(3,185)	-17
Construction	40,724	43,895	(3,171)	-7
Textiles	23,759	26,410	(2,651)	-10
Total of above	297,256	534,524	349,121	-15
Total	625,401	(51,865)	(90,878)	-15

SOURCE: CLINE; SBI RESEARCH

Sudip Sural senior director, corporate & government ratings, **CRISIL**

Pavan Kumar Vijay
founder,
Corporate Professionals

have not invested much in terms of fixed assets," says Dhananjay Sinha, head (institutional research), economist & strategist, Emkay Global. "This reflects a rising proportion of working capital requirement and lack of deleveraging process. High inflation and a supportive banking system have caused the rising debt requirement for running operations, while banking going liberal on loan repayments also aided sustenance of high-gearing ratios for Indian corporates". The exposure of banks, for instance, in sensitive sectors such as metals, power, textiles, infra, etc, continue to remain fairly elevated, thereby perpetuating the non-performing assets (NPA) issues for a long time, Sinha feels.

Regulatory forebearances provided by authorities have enabled a liberal attitude of banks towards leveraged corporates. "In contrast, these have not helped, as sales growth of companies has declined since 2010-11. And, accentuated by the massive contraction in commodity prices, the ability of companies to service their debt burden has diminished," adds Sinha.

"Some of the companies have over-leveraged their debts, anticipating that the demand will grow and they will be able to utilise their enhanced capacity to the maximum level but it did not happen," says Lalit Kumar Dangi, chairman, Libord group, which has been restructuring many mid-cap corporates. "Since 2012, the demand for the goods has gone topsy-turvy and, though investments were made, they could not sustain the cash out flow, which is more than inflows. The examples are Alok Industries, Essar Steel, Global Tele and many others".

"India's fragile corporate metrics and its bad loan problem are just the mirror images of each other," says V.V.L.N. Sastry of FirstCall Equity, pointing to the macro numbers, where India's corporate debt-to-GDP ratio stood at 51 per cent of GDP as on 31 March 2016. The size of India's corporate debt, relative to GDP is comparable with other major economies such as the US (72 per cent) and the European Union (105 per cent). The outstanding external commercial borrowings (ECBs) amounted to $177 billion at the end of June 2016, which is about 17 per cent of total corporate debt outstanding. The aggregate NPAs of the banking sector stood at ₹6.5 trillion (8.6 per cent of the loans) at the end of June 2016. Adding another 3.5 per cent of restructured loans, the total amount of impaired debt in the banking sector rises to 12.1 per cent as on 30 September 2016. Another 4.5 per cent (₹3.3 trillion) of loans are still to be recognised as NPAs or restructured assets, which makes the actual ratio of impaired assets of India's banking sector 16 per cent plus.

Dhananjay Sinha
head (institutional research), economist & strategist,
Emkay Global

"The root cause is that everyone, from owners to lenders, had based his growth plans on the GDP number and its near-term growth, but the GDP growth had belied their expectations," says Suresh Jain, founder of Sun Capital. Sastry feels that the reasons for corporates going overboard with debt are many. "They include lust for the number one position in size and assets with no optimal recovery due to unhealthy competition; unwillingness to learn any lessons from the others' mistakes; global slowdown; and tepid demand," he adds.

However, by looking at various studies done by SBI, India Ratings, CRISIL and others, one can see that the over-leveraging and sickness in many of the cases are industry-specific issues. They are the main reasons for the bad financial condition. One instance, points out Sastry, is the regulatory delays in the infra sector (perhaps the most important). As per the BOT (build-operate-transfer) model of PPP infrastructure development in India, private players create special purpose vehicles (SPVs) that make each project act as an individual entity. These projects are highly leveraged (on an average 70 per cent), since the gestation period is long and uncertainty is high, equity funding isn't attractive to investors. Therefore, promoters start with high debt and hope to raise equity nearer to the completion of the project to get higher valuations, when uncertainty is lower and rewards are nearer for investors.

"But, as is painfully typical in India, projects are inevitably delayed due to delays in procuring permissions, clearances and land acquisition," says Sastry. "This leaves promoters with high risk leverage and no equity to bank upon. Further, interest costs shoot up drastically by this time and interest costs further erode profitability. Low cash flows lead to more delays and the vicious cycle goes on".

"The non-transparency in opening up of infrastructure segments, especially telecom and coal allocations, has also raised the heckles in political circles," adds Ghosh of SBI. "With problems abound, the imbroglio was difficult to settle with assessment in demand projections misfiring". Ghosh points out that it is the more capital-intensive sectors that have been in trouble – like power, iron and steel, metal and mining, real estate, oil and gas. Adds Sastry: "These sectors account for 53 per cent of all refinancing requirements in India. About 65 per cent of the stress in India's banking system is due to the core sectors that otherwise constitute a large part of India's economy".

"Unless they run the capacity optimally they can't be out of wood," observes Ghosh. "For example, there are huge imports of steel from

China in the last couple of years, global demand too is muted, so the capacity is idle and it has a cost. As a reprieve, the government is addressing cheap imports through anti-dumping duties. Levying of such duties is likely to improve or stabilise realisations".

"The steel industry is the biggest contributor to the NPAs of bank borrowing," explains Vijay. "The government has imposed minimum import price (MIP) for steel with effect from February, which has helped the industry a little, but the domestic demand is still down. The steel prices are not growing internationally and Indian companies are finding it difficult to compete with Chinese suppliers. Similarly, power and infrastructure sector has not grown as expected, even though there is huge scope, and so, the recovery is poor. In the real estate sector also, the demand is low. And, it might be hit further by the currency demonetisation in short run".

Investment in new projects

Sectors attracting growth in new investment includes Consumer goods, Machinery, Textile, Transport equipments, Chemicals etc. Top 10 Sectors witnessing investment growth in new project in FY16 over FY15

(₹ Crore)

Sector	FY15	FY16	Growth %
Consumer goods	2,783	14,157	409
Machinery	41,576	159,021	282
Textiles	2,834	10,350	265
Transport equipment	14,919	34,777	133
Information technology	4,594	10,611	131
Communication Services	2,060	3,790	84
Food & agro-based products	14,250	24,809	74
Wholesale & retail trading	13,206	20,173	53
Hotels & tourism	6,435	9,588	49
Chemicals & chemical products	54,457	74,601	37

SOURCE: CMIE: SBI RESEARCH

V.V.L.N. Sastry
FirstCall Equity

"Significantly, the lower-than-envisaged capacity utilisation has been the primary reason for the problems faced by most the capital intensive sectors. For 10 out of the 12 industrial sectors, capacity utilisation was lower than the five-year average in 2015-16. While sectors such as metals and cement have seen a fall of close to 5 percentage points in utilisation rates driven by lower core sector demand, the plant load factor (PLF) for private power capacities commissioned post 2008 has been close to half of its normative levels of 85 per cent, as a result of weak financial health of power distribution companies," explains Sural of CRISIL Ratings.

Among the companies that are wading in troubled waters (sector-wise) are:

- **Infrastructure:** GVK, GMR, Lanco Infra, Hindustan Construction;
- **Steel:** Jindal Steel & Power, Monnet Ispat, Electrosteel, Essar Steel;
- **Power:** Adani Power, Reliance Power, JP Power Ventures; and
- **Real estate:** DLF, Unitech, JP Associates.

What's the way out for these debt-ridden companies? Both lenders and borrowers have been grappling and working on all fronts. "With little scope for lenders to tide over the crisis, various options were offered. One of them was the rollover of debt, offering some breathing space and hoping for demand situation to change. However, as things stood, there was an oversupply of capacity and sub-optimal utilisation in capacity levels at roughly 73 per cent or so. This lead to pressure on debt servicing and hence the need to either off load assets, or enter into CDR. Lenders forced some companies to cut debt by selling non-core assets.

The situation is unlikely to improve significantly in the coming year also, as demand conditions have not recovered. The circumspect spending after demonetisation and the nearly two back-to-back droughts have affected the desired impetus in demand", observes Ghosh of SBI. For example, Suzlon had to sell its stake in some of its foreign entities and utilising part of it to reduce debt levels. Other examples of asset sale includes 51 per cent stake sale by Reliance Communication in its tower business, as also DLF's sale of 40 per cent of its stake in commercial property business to reduce debt.

"Companies are trying to deleverage their balance sheets through sale of non-core assets until demand picks up and positively impacts capacity utilisation levels. Improving operational efficiencies to support profitability is also a key to ride over the cycle. In some of the sectors such as power, roads and cement, players have already sold assets in order to deleverage balance sheets," says Sural of CRISIL Ratings. During 2015-16, rating downgrades by CRISIL were on account of subdued demand, diminishing profitability, weak liquidity, lower cash accruals and high leverage.

"On the downside, while deleveraging per se is a must for private investment to come back on stream, the concern is that simultaneous deleveraging may be a vicious cycle, as it pushes down economic activity which, in turn, makes it even difficult for subsequent deleveraging and the economy may thus continue to be in a myopic state for some time," discloses Ghosh.

Solution for different companies would differ, as the problems are also varied. "Some are due to mismanagement or mis-utilisation of funds and hence might require strict banking and regulatory action including change in management or even insolvency proceedings. Others might have industry-specific or external economic problems and might require help from government at policy level, as well as support from banks and financial institutions. Deleveraging of balance sheets of such companies or bringing down the finance cost or repayment obligation to a reasonable level will make the business viable. Equity investment, even at the cost of dilution of holding of promoters, as also sale of excessive or surplus assets, would be a solution. Many of the highly leveraged companies have started such exercises," informs Vijay of Corporate Professionals.

"Generally, it is thought that, if RBI reduces rates, corporates will be able to service their debt or their balance sheet would shape up better," says Sinha of Emkay Global. "This has not worked". The RBI has reduced its policy rates by 200 basis points over the past two years but things have not changed. Eventually, the RBI under Raghuram Rajan had to force banks to follow better recovery plan, forcing them to clean up bad loans by end of 2016-17. "While the recent deleveraging forced by the RBI has had a salubrious influence on the banking operations, it has also caused a considerable downdraft in business growth for banks. The demonetisation impact can possibly prolong the recovery process," feels Sinha, who strongly feels the solution lies in the completion of the deleveraging process.

As of now, there are several companies who have sold assets to repay their debt; this will need to prolong till the time the cost of incremental assets sold falls enough to start generating higher return-on-assets (RoAs). "In a difficult business environment, RoAs of Indian non-finance companies have declined to sub-10 per cent levels from a high of 24 per cent odd," observes Sinha. "Hence, reduction in rates may not be enough to revive prospects for corporate balance sheets. Improvement in productivity of capital and gradual improvement in asset turn will be necessary through betterment of demand scenario, both from domestic and global stand point".

"Solution could lie in offering bids at earlier level and not procrastinating the stress level, inviting the leaders of the industry to have effective takeover of ailing units for a better management of installed resources, says Jain of Sun Capital. "Examples include ailing cement companies taken over by leading players in recent times".

"Many of them, as indicated by the interest and asset coverage ratio, are drowning in debt. Companies should be restricted to certain times of their assets or capital," adds Sunil Pachisia of Pratibhuti Stock Broking. "Only companies having certain turnover or net worth can be allowed with a fixed tenure for redemption. Lastly, such borrowings should be backed by personal guarantees of the promoters and directors".

Lalit Kumar Dangi
chairman,
Libord group

"A journey of a thousand miles may begin with a single step. But, here, there is no one solution. However, several alternatives have to be explored to contain the damage," recommends Sastry, multiple choices: like improvement of corporate bond market liquidity to eke out a greater role for global investors; an aggressive CDR mechanism to convert debt to equity by easing norms around the scheme for sustainable structuring of stressed assets; creating an empowered joint lender's forum for NPA resolution, and nudging banks to sell NPAs to professionally managed asset reconstruction companies (ARCs) that could resolve the asset.

Top 20 Companies by debt reduction in FY16 over FY15

Company	Total Debt (₹ in crore)			
	March 2016	March 2015	Reduction	Share %
Jaiprakash Power Ventures	14,631	22,901	(8,270)	-36
Tata Motors	15,887	21,134	(5,247)	-25
Suzlon Energy	5,783	10,947	(5,164)	-47
Jindal Steel & Power	23,915	28,313	(4,398)	-16
Indian Oil Corporation	52,467	55,245	(2,778)	-5
DLF Ltd	9,446	12,058	(2,612)	-22
Jaiprakash Associates	28,944	30,886	(1,942)	-6%
Chennai Petroleum Corporation	3,560	5,399	(1,839)	-34
National Fertilizer Ltd	6,120	7,645	(1,525)	-20
Dish TV India Ltd	- 1,484	(1,484)	-100%	
GAIL (India) Ltd	8,118	9,556	(1,438)	-15
Oil & Natural Gas Corpn	-	1,393	(1,393)	-100
United Spirits Ltd	4,204	5,324	(1,120)	-21
Indian Hotels Co	2,108	3,209	(1,101)	-34
India Glycols Ltd	1,123	2,138	(1,015)	-47
Sun Pharmaceuticals Industries	5,835	6,811	(975)	-14
Shipping Corporation of India	5,898	6,833	(935)	-14
MRPL	8,103	9,032	(930)	-10
Gujarat Gas	2,335	3,226	(891)	-28
Coastal Gujarat Power	14,282	15,148	(866)	-6
Total	**212,759**	**258,682**	**(45,924)**	**-18**

Companies like Dish TV, ONGC have narrowed their debt and companies like Tata Motors, Chennai Petrochemicals, Gujarat Gas etc. have cut their debt considerably and gearing up to ride the storm. Reportedly, Ultratech Cement is likely to consolidates its position in cement industry lapping up debt laden corporates. Further corporate like Hero Motor Corp, Bharat Electronics, Zee Entertainment Enterprises Ltd, Infosys, Bharti Infratel Ltd, ITC Ltd, Wipro Enterprises Ltd, Lupin Ltd etc. may utilise the leveraged buy-out option.

SOURCE: CLINE; SBI RESEARCH

Suresh Jain
founder,
Sun Capital

In fact, ARCs are an important means of addressing the NPA management issue that involves the aggregation of debt outstanding to various banks, the arrangement of capital, right-sizing of business and bringing in a strategic partner. This process requires a period of three to five years – the first few years to restructure and resolve the existing issues and the remaining years used for consolidation and growth. "Going forward, these ARCs will also need to have operational turnaround capabilities – which would form an important part of growing any stressed asset investing business".

In this scenario, while there are companies drowning in debt, there are also some cash-rich ones, which are riding the storm. "Companies that have maintained prudent capital structure, have a well-defined policy to maintain surplus liquidity at all points of time and have exercised tight control on working capital cycle have been able to tide over the pressure on external cash generation in investment-linked sectors. Further, companies whose managements have been responsive to macro-economic signals have refinanced their debt obligations in a timely manner in order to minimise liabilities in times of stress," feels Sural.

This will, surely, separate the grains from the chaff. There are many government companies which are sitting on huge cash on their books. In private sectors (other than banks) too, there are companies with high amount of cash in the areas of consumption, IT, cement, auto, pharma, etc. These are sectors that have been supported by domestic demand and policy stimulus. Many of these companies are not asset heavy and do not have too much of investment requirements. Examples of such companies are: Infosys, Wipro, Rajesh Exports, HCL Technologies, Interglobe Aviation, P&G, Glaxo Smith Consumer, to name a few.

Sufficient cash in hand too would help them to do well. "Though a good amount of cash in the books makes these companies comfortable, especially in low economic growth phases, it is not right to say that holding huge cash in banks by companies is always a positive sign. Keeping cash unproductive in place of putting in business for further growth is considered negative or growth-regressive and may not be good for economic growth of the country. There are many good M&A opportunities nationally and internationally and, hence, these companies should take the advantage of their strengths and opportunities and make investments for growth sectors based on their business philosophies and business prudence," says Vijay.

Meanwhile, debt of firms downgraded by CRISIL in 2015-16 had risen to an all-time high of ₹3.8 trillion. More than half of this debt belonged to firms in the metal sector, which were hit by falling realisation and high debt. And the second largest chunk of about a quarter belonged to the infrastructure sector. However, in the first half of this fiscal, credit quality of corporates started to improve. CRISIL's debt weighted credit ratio (ratio of rating upgrades to rating downgrades) for the first time in the last 10 semi-annual periods has turned above one in the first half of 2016-17. "The reason for this improvement was a reduction in the intensity of pressure on commodity-linked sectors, especially metals, backed by policy support. Sustenance of this improvement in credit ratio will be the key to measure the credit profile of India Inc, going forward," observes Sural.

The two pillars of corporate recovery – consumption demand and investment demand, particularly private sector expenditure – are likely to remain fragile during 2017

While deleveraging continued through the first half of 2016-17, an interesting trend noticed is that sectors like fertilisers, textiles and pharma have joined the bandwagon. For instance, while Zuari Agro has reduced its loan funds by about ₹1,300 crore, Mangalore Chemicals has shrunk its debt by about ₹700 crore.

"In this exercise, corporates also learnt a lesson. It dawned on them to recalibrate their global aspirations lower and undertake a course correction. Ambitions took a back seat and focus on core operations was the only way out. The 5x25 scheme provided some succour to corporates, especially in infrastructure segment. It is right that many a corporate has shown deterioration in asset coverage and interest coverage ratios, because of the huge debt in the balance sheet," observes Ghosh, who feels that the ultimate solution to this problem lies in recalibrating the production priority of the economy. The excessive growth in services and real estate sector had created a situation of jobless growth in the period 2004-14. "This needs to be corrected. A part of the problem was that the wealth effect had dislocated capital – also known as the Piketty Effect – leading to stagnation of wages and eventually fall in savings. Demonetisation will correct this to some extent. But, for a sustainable recovery, the demand has to revive which will require focus on agriculture and schemes like MUDRA".

For India Inc to come out of the mess, several bold measures will have to be taken. Firstly, companies need to keep their debt under check and restrict themselves from excessive borrowings. They need to focus on their core competence, rather than diverting to non-core activities where they might not have the edge over existing established players. Keep the cost of finance minimum by way of perfect blending of raising resources from various source and optimum utilisation of fund.

On the macro level, "A lot of key drivers are required for picking up in investment cycle," says Dangi of Libord. "They are" infrastructure spending by the government, government's stable economic vision, fearless transactions, increase in saving rate of the people, incentive by the government in basic industries, stimulus to the people for more spending, etc. But it seems there will hardly be any demand that will work for picking up investment cycle and consumption-led growth, since the way the pessimist attitude has percolated down the line, everybody is trying to save the money for any future calamities, because of many uncertain factors prevailing in various countries".

"The present growth is already consumption-led, spearheaded by government consumption and also due to Pay Commission implementation. But, ultimately, for the private investment to pick up, the normal consumption demand will have to take the lead. Consumption can be elevated, if agriculture is given a thrust, as it supports 55 per cent of the total demand. A majority of investment occur in the unorganised sector and SME sector. Hence, the budget must focus on this sector, as also on agriculture. Also, MUDRA becomes important in reviving investments. The implementation of GST on 1 April 2017 is ideal in terms of timing, as the demand condition and consumption will improve by that time. This is because tax on consumption has a much wider base than tax based on income," recommends Ghosh of SBI.

"The two pillars of corporate recovery – consumption demand and investment demand, particularly private sector expenditure – are likely to remain fragile during 2017. The government expenditure is likely to fill in some of the gaps but may not be sufficient. With the nominal GDP falling to single digit till 2015-16, corporate profitability would improve only gradually as the nominal GDP improves," says Priyanka Poddar, analyst, credit & market research, India Ratings & Research.

"The market conditions are tough. Companies have to compete globally; hence, it will be better for the companies to review their fixed expenditure and concentrate on the normal business activities, rather than diversifying in the areas which are not the core area of the company," suggests Dangi.

Gaining momentum

Going forward, we can see investment momentum in sectors like Roadways, Irrigation, Railways, Power Distribution, Defence etc. Sector wise tender published during last year i.e. FY16 shows that these sectors attracted close to 80 per cent of the total tenders awarded.

Sector	Amount	(₹ crore) Share (%)
Roadways	2,63,404	51.70
Community services	49,888	9.79
Irrigation	54,339	10.67
Water Supply	47,772	9.38
Railways	54,916	10.78
Power Distribution	30,793	6.04
Thermal Power	2,932	0.58
Hospitals	16,139	3.17
Real Estate	12,265	2.41
Others	91,261	17.91
Total	6,23,709	100

For one, the whole world is facing growth problems and India is not an exception. There is no visible sign of economic recovery in the near future, since most of the countries are passing through either economic disability or political storm or civil unrest which has stymied the economic recovery. Moreover, though the government is taking a lot of steps for economic recovery, the industrial sentiment is subtle and nobody is sure that when they will be able to clock the turnover of their choice. It may take 2-3 years to come on track.

Many expect that the huge cash coming to the banking channel due to demonetisation would compel banks to reduce the interest rates and keep investing in businesses, which would definitely reduce the cost of production and make business viable, if the demand and consumption increases. Everyone is expecting positive steps from the government to increase the purchasing power and consumption capacity of individuals, by providing tax relaxations in the coming budget.

Similarly, in case there is a substantial increase in government expenditure, which will give a boost to infrastructure, power, rural economy, low-cost housing etc, it would increase the economic activities too. The key of economic growth is increasing the consumption and retail demands. If the government policies can support this, then the economic activities at all levels would increase and business would bounce back.

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