

Business News

StartUp-&-Entrepreneur

Hospitality-Industry

Smartcities

Technology-Leaders

Advertising-&-Event-Industry

Sustainability

NPAs', Low Capacity Utilisation Still Haunts India Inc

Like

It will be sometime before we see light at the end of the tunnel

[Country](#)[Attack](#)[Ability](#)[Absorbs](#)[Accept payments online](#)[Advertises](#)[Agencies](#)[Allowed](#)[Articles](#)[infoLinks](#)

Photo Credit : Reuters,



HOME

WEB EXCLUSIVES ▾

COLUMNS ▾

COMMUNITIES

EVENTS

BW TV ▾

SUBSCRIBE TO PRINT



30 June, 2017
 by Raghu Mohan

Print this article

T1 Font size - 16 +

It's a double whammy - India Inc., will take a while before it breathes easy again; you can blame it on dud-loans and low capacity utilisation. Though they may appear unrelated in the first instance, it's not so - for both feed of each other.

Rating agency, CRISIL says the move by Mint Road to refer a dozen large non-performing assets (NPA) for resolution under the Insolvency and Bankruptcy Code (IBC 2016), based on the recommendations of its internal advisory committee will be a big positive for bank balance sheets. It says banks have already provisioned for 40 per cent for these NPAs worth Rs 200,000 crore; or equal to a quarter of the NPAs in the banking system before the central bank's move.

And here is the cost attached to the measure. Says Krishnan Sitaraman, Senior Director-CRISIL Ratings, "Based on CRISIL's assessment of embedded value in the top 50 NPA cases, we estimate a 60 per cent haircut would be needed on these loan assets. That would mean banks will have to increase provisioning by another 25 per cent this fiscal, compared with nine per cent in the last."

Now read this along with a CARE Rating's report on capacity utilisation (CU). A clue to investment is the CU rate in industry. Typically, companies start investing in capital once a minimum threshold of CU level is achieved, after which it becomes necessary to invest in machinery to produce more goods. Globally, it has been observed that the CU rate needs to move towards the 80 per cent mark for fresh investment to be invoked although extremely buoyant conditions in demand would hasten the pace. The relatively low and declining CU is one of the reasons that the investment rate in the country has been falling in the

Search

☒ Article☐ Quick☐ Author

#Startup India

BWDI

Follow All News & From The Indian Stand

Socialize

Get Social! Follow us on your social networking website.



BW CIO WORLD
 CIO
 IMPERATIVES

Reg
 Thursday
 Four Se

EC-Council
 3rd ANNUAL CISO SUMM
 14th July, 2017 | The Lal
 83415896

Quick Bytes



Ch
 Sm
 ↩



Fiv
 CEC
 Ch
 Viewpoin

read mc



5 Teams
 The Most
 Champion
 2016-20

Says Rucha Ranadive, Associate Economist at CARE Ratings: "It is believed that more robust demand across industries is required to push up this rate which can lead to higher investment. Doing a random simulation we conclude that industrial growth rate of around eight per cent combined with an inventories to sales ratio of closer to 1.5 per cent would help to move the utilisation rate towards 80 per cent when fresh investment normally is spurred".

The co-joint twins

What can be deduced is banks' will be in no position to lend as in the past because of the uptick in dud-loan provisioning; they will have to first clean up their balance-sheets. Sure the impact of this could be mitigated if banks are allowed to amortise the provisioning across 6 to 8 quarters - or two years (it will be 2019 by then!).

Then you have the headache of sectoral exposure limits - banks' need to be within these limits when they lend to industry and specific firms; it's to ensure they are not over exposed to them. Now given the NPA overhang many banks have already hit such limits and those sectors will not be able to avail of bank credit anytime soon.

Says Rama Patel, Director-CRISIL Ratings: "While the IBC route could entail a substantial markdown of loan assets by banks, the ability, especially of state-run sector banks, to absorb such losses and the consequent impact on their capital position will need to be monitored closely in the road ahead."

Where does it leave us on the CU front? Many firms are low on it because they are NPAs on bank books and are not eligible for fresh round of debt restructuring. Or banks are just not able to vend loans liberally as they have capital woes to attend to.

Bottomline - grin and bear it!

Share this article:

Tags assigned to this article:

npas crisil care ratings



Things You Can Do to Save the Environment

← read more



5 Issues That are Degrading the Environment

← read more



5 Food Trucks to Watch Out For in Delhi/NC

← read more

BW TV



Cyber Security in Banking - How to Assure Security?

← read more



Leveraging Datacentric business banks & Financial Providers

← read more



Future of Payments: \$500 billion Moderate Growth

← read more



Future of Payments: \$500 billion Moderate Growth

← read more

Recently Published

Mohan To Journey To Champaran

← read more

GST Profits Add These Certificates to Resume

← read more

How do you feel about it?

Great
(0%)Good
(0%)Waste
(0%)Sad
(0%)Angry
(0%)

Login ▾



Write your opinion..

Most Commented Articles

On A Wing And A Prayer - BW Businessworld (15 Comments)

Raymond Starts Construction Of New Integrated Plant At Amravati - BW Businessworld (14 Comments)

PM Modi Terms GST As Good And Simple Tax - BW Businessworld (8 Comments)

Pasta Bowl Company Planning for Expansion - BW Hotelier (7 Comments)

Get Ready for the Cognitive Era - BW CIO (3 Comments)

We see ourselves as a niche focused manager that offers only equity funds - BW Businessworld (2 Comments)

Competing for Finite Resources Water Matters -Chandana Kiran - BW Disrupt (1 Comment)

Building the Perfect Beast What Really Happens in Brand Management - BW Disrupt (1 Comment)

Latest Commented Articles

Get Ready for the Cognitive Era - BW CIO (3 Comments)

39 mins ago

Competing for Finite Resources Water Matters -Chandana Kiran - BW Disrupt (1 Comment)

11 hrs ago

Building the Perfect Beast What Really Happens in Brand Management - BW Disrupt (1 Comment)

12 hrs ago

PM Modi Terms GST As Good And Simple Tax - BW Businessworld (8 Comments)

12 hrs ago

KomentBOX

Advertisement

#Startup India

Follow All News & Updates
From The Indian Startup Ecosystem.

BWDISRUPT
DISRUPTION IN ENTREPRENEURSHIP

Created by
Zoho Books
Tally.ERP
← read more

GST Impact
Cuts iPhoto
Prices In
← read more

Around The World



What is the
Risk of a
Aberdeen Essex



The Class
Thing of the
Using Technology
Forbes



Mother, child
in grisly car
accident
France 24



Want to see
Celebrity
Live? See
Mansion Glob

Recommended by

#Startup India

BWDISRUPT
DISRUPTION IN ENTREPRENEURSHIP

For All New Updates

From The Startup Ecosystem

◀ Previous

Next ▶

View More Articles

Subscribe Now

BW COMMUNITIES

BW Communities is an array of business news websites targeted towards niche communities and readers across various industries



BW CLOWORLD

EF Manufacturing Industry Surfs Digital Wave At Last

EF Location-based Services Integrated with GIS Platform to Enable Digital Transformation

EF Epsilon Selects 1025Connect to Extend Its Platform for Direct Access to Cloud Connectivity on Long Island

[Read More »](#)

BW DISRUPT

EF Robotics, Dentistry and the Future

EF Ask Juno Helps Students to Predict Best Matched University for Studying Abroad

EF Building the Perfect Beast - What Really Happens in Brand Management

[Read More »](#)

BW SMARTCITIES

EF The Impact of GST on Residential Re

EF Sterlite Tech to provide Tech solutio Kakinada Smart City

EF Third List Of Smart Cities Out, Thiruananthapuram Tops The List

[F](#)