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Credit outlook easing, do not see sharp rise in NPAs: Rajesh Mokashi, CARE Ratings

By ET Now | Updated: Oct 26, 2016, 08:54 AM IST

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*Credit outlook of Indian companies is beginning to ease after a weak macroeconomic cycle that began three years ago, says **Rajesh Mokashi**, managing director of **CARE Ratings**. In an interview to Joel Rebello, he says the company is diversifying into non-rating business while continuously sharpening the tools in its core business. Edited excerpts:*



"Trying to do things in non-rating business. We already have an advisory firm and also doing something in research and training. Diversifying through subsidiaries"

How is the credit quality of Indian companies shaping up?

Credit quality of companies is a function of the macro [economy](#) ultimately. We have seen commodity prices going through a difficult phase. Certain sectors like steel have been impacted, which has affected many other things. From an overall credit perspective, the push coming in from consumption like a monsoon or pay commission can give a boost. Exports still remain slow, which means looking for growth from outside [India](#) seems diminished. This weak cycle started three years ago and now seems to be easing a bit. Even in bank NPAs (non-per forming assets), no new big accounts are being added. Credit outlook is now beginning to ease. I don't see a sharp increase in NPAs. Restructuring is yielding results. Companies are coming for refinancing. But it will take some time. There is an urgency to move on rather than getting stuck with it. Interest rate cycle changing direction will also help.

Which sectors will benefit more?

Traditionally, pharmaceuticals, software and consumption-led sectors are the first to catch the upside. Consumption-oriented sectors, I think, will see the positive effects first and they are all pervading. Goods like refrigerators and cars will also give a boost to other sectors. There is a positive bias which was absent earlier. It is clearly visible this year and the next six months hold the key to how it translates into economic numbers.

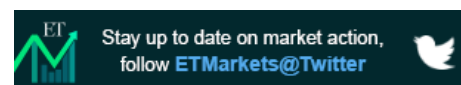
How can India ensure that the benefits we have now are cashed in for a longer period?

Somewhere in the root in all these positives we have to make sure that our factors are less seasonal and for that bringing rural India into the mainstream is important. Building highways, for example, is a step in this direction. The whole penetration of microfinance allows rural areas to participate in the economic activity. Urbanisation is also a very crucial part in getting these people into the mainstream, like the smart cities project by the government. These steps will integrate the economy and make it less dependent on certain shocks and keep the engine firing.

What does the improvement in credit outlook mean for rating businesses like yours?

As companies start growing and making more profits they become ready for investing more in businesses and those investments will come from borrowing from capital and loan markets, for which they will come to us for ratings. So, if credit offtake of companies remains in single digit or lower, then business prospects of rating agencies will be affected because fewer people are borrowing money. When there is a change in the credit outlook of companies it means more business for rating agencies.

How is Care Ratings diversifying?



We are trying to do things in the non-rating business. We already have an advisory firm and are also doing something in research and training. Our core is rating analytics but we are also diversifying through subsidiaries. The idea is to leverage our large customer relationships and address their other needs. We are entering new markets like Nepal and Mauritius. Mauritius is a small country but it will give us an insight into Africa. We wanted to start in a [market](#) where there is a chance of rating activity succeeding. Indian business has huge potential but further growth can come from other markets. The entire Southeast Asia is important for us. The rating business requires limited capital. There are related businesses like research, bank loan ratings and insurance company activities. If those come into the mainstream, there is a reasonable business to be done.

What have you learnt from the mistakes committed by rating agencies in the past?

I don't think any mistakes were committed but in hindsight somebody could be wise on certain instruments. Based on the numbers and analysis at that time the ratings were appropriate. As a rating agency we are seeing the changing dynamics of the economy, globalisation and commodity cycle. Macro parameters change faster for companies than they used to earlier, because of which it has become challenging to look at the future. To that extent, we have to be sharper going forward. We are building our own models, doing stress testing and trying to build those structures into the rating process. It is a continuous process.

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