‘Larger retail funding, asset quality of NBFCs in good shape’

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Despite the problems at Infrastructure Leasing and Financial Services, the larger asset quality of NBFCs is in good shape, as "this is a temporary crisis and not a fundamental one", believes Gurpreet Chhatwal, President, Crisil Ratings. In an interview with *BusinessLine*, Chhatwal also expressed confidence that corporate bond issuances would touch close to ₹60-lakh crore by the end of fiscal 2023, as has been projected in the recent Yearbook on the Indian Debt Market 2018. Excerpts:

What do you make of the current situation where

the corporate bond

market is not very robust?

The growth in bond market is not a secular growth. The 2008-09 financial crisis impacted the bond market, followed by the 2013 taper tantrum, when the rupee went into a tailspin. Now, five years later, a similar situation has come about . So, there will be a crisis of confidence, but a call has to be taken whether it is a fundamental crisis or a temporary crisis. It is not going to go away tomorrow. IL&FS defaulted in September. It will take three to six months to stabilise. Are we concerned by the current situation? From the long-term perspective no, but from a short-term perspective, yes. Everyone has to be vigilant. Both issuers and rating agencies have to introspect. But we believe that beyond IL&FS, the larger retail funding and asset quality of NBFCs is in good shape. From a fundamental perspective, we are not very concerned.

Rating agencies have, in the past, failed to alert investors about concerns and potential defaults by companies such as IL&FS, Amtek Auto and RComm. What measures can be taken to ensure that the ratings fully reflect the

true situation of the company?

Crisil has not rated any of the above companies, hence, we will not be able to comment on these ratings. However, it is pertinent to note that the 3-year default rate for debt rated AAA by CRISIL continues to be 0.00 per cent. Crisil has been proactive in its rating approach, and displays strong rating quality, thanks to our stringent internal processes. We not only have a very structured review and feedback mechanism to track our portfolio of rated credits, but also supplement this with insights from a large research team that continuously tracks the industry and sector-wise performance for signs of incipient stress.

Will the bond markets be robust enough to have close to ₹60-lakh crore of issuance in the next five years?

Five years ago, we were almost half of the current issuances of about ₹26-lakh crore. So, we project that in the next five years, it will double as the economy grows further at a projected rate of about 8 per cent to 8.4 per cent. Bond issuances will move from about 16 per cent to 17 per cent of GDP to about 20 per cent of GDP.

Will government borrowing crowd out corporate bond issuances?

If we have fiscal deficit target of 3 per cent to 3.5 per cent of the GDP, then the call is that government borrowing will not crowd out private investments. It is only when the government's fiscal deficit sees a sharp rise and leads to higher borrowing that there is some crowding out. In five years' time, we project corporate bond issuances to amount to 20 per cent of the GDP. In the United States, it is close to 120 per cent of the GDP, and yet there is a huge government deficit, which gets financed.

How will the Insolvency and Bankruptcy Code create confidence in investors to put money in corporate bonds?

Most bond market investors such as Mutual Funds and pension funds hold bonds to maturity, and have limited information about the paper unlike a bank, which does much more due diligence. Their concern is that if the asset defaults or goes into trouble, the bond market investor typically does not get the money back. So, they largely prefer to invest in AAA or AA-rated companies. IBC creates a resolution mechanism for stressed assets. So, the recovery percentages are much higher, and it is expected to be resolved in 270 days.

In the US, it takes less than a year to get your money back, and you get 83 per cent of your money back. So, if an investor knows that even if the company defaults, they get 80 per cent of their money back, so they are willing to invest in A-rated companies.

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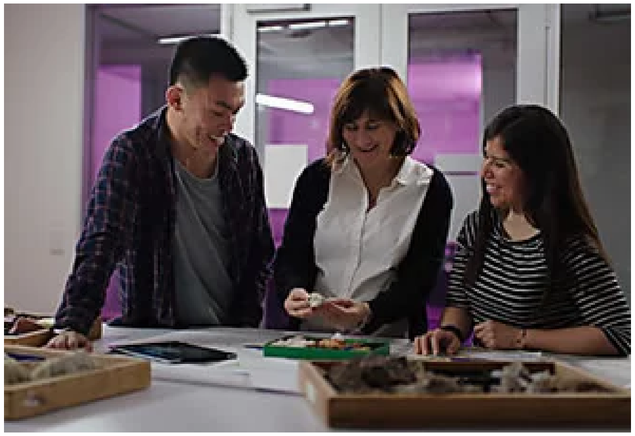

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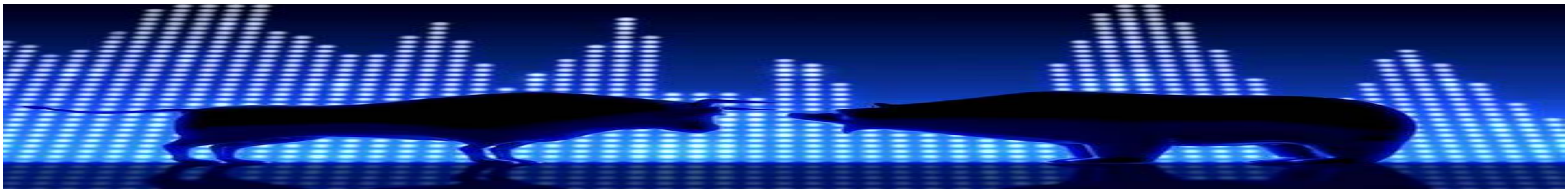

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