January 2014

ONICRA
WE SECURE TRUST

SME INSIGHTS

A Newsletter from ONICRA

Onicra Credit Rating Agency of India Limited

ABOUT ONICRA CREDIT RATING AGENCY OF INDIA LIMITED (ONICRA)

Onicra Credit Rating Agency is an active player in the Credit and Performance Assessment space. It provides analytical risk assessment and rating solutions to MSMEs and Corporate.

These ratings enable the lender, service provider or any other stake holder to make smart, value based decisions on the Medium, Small and Micro Enterprises (MSME) or the corporate by arming them with essential information including financial, operational, 3-Dimensional analysis that provides a holistic view about the entity.

About Onicra MSME Ratings

The Ministry of MSME through NSIC has signed a memorandum of understanding with Onicra to provide performance and credit rating services to MSMEs. The rating creates awareness about the strengths, weaknesses, opportunities and threats, and assists in identifying areas of improvement for the MSME. Under this scheme, the MSME only pays 25% of the rating fee to Onicra while the remaining 75% is paid by NSIC as subsidy.

The company has rated around 24751 MSMEs since 2005.

NSIC scheme features

Benefits of NSIC- Onicra Performance and Credit Rating

- Assists in risk management by highlighting parameters measuring operational, financial and business risk.
- Enhances acceptability with Banks, Financial Institutions and provides access to cheaper and timely credit.
- It is a “holistic health check-up of the unit” that establishes credibility, goodwill and assists in dealing with large companies.
- Helps in marketing and serves as first point to generate interest among potential partners.

ECONOMIC PERSPECTIVE

Executive Summary

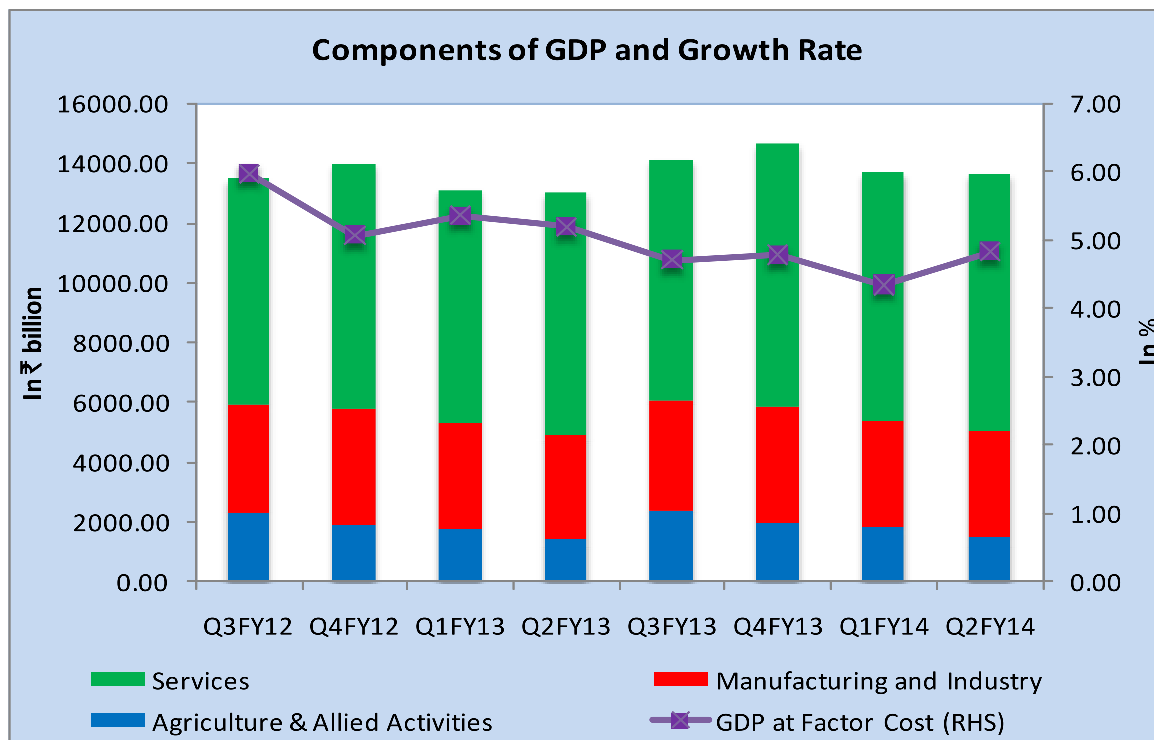
Indian economy has witnessed a growth rate of 5.00% in the financial year 2013 (FY13) and it was estimated that the growth in the first and the second quarters shall be around 4.4% and 4.6% respectively. So far, the growth in the April 2013 to September 2013 (H1FY14) has been 4.6%. The growth rate has been affected more by the internal factors this time including the depreciating rupee, high inflation especially of food products, and lack of constructive policy changes than the international factors

While the agriculture and allied activities sectors of the economy have shown signs of recovery, the growth has been slower in the services sector in H1FY14 than in the previous corresponding periods. The primary sectors have shown an improvement driven by increase in the rainfall and investments into the core infrastructure industries.

Reserve Bank of India (RBI) has been making conscientious efforts for easing of monetary controls to create an investment scenario in the country. This entails efforts to increase the inflow of foreign funds into the Indian market. The government too has taken upon itself the task of reducing the current account deficit (CAD) that would attract foreign investors. This has been helped by the fact that the gap between the exports and imports has narrowed in the wake of tighter import policies on precious metal and reduction in the import of oil and fuel. Rupee has been more stable against the dollar lately. However, the global markets, especially US have not been very supportive towards the Indian economy, partly due to their own domestic issues such as shutdown on account of the medical care reforms.

The global factors coupled with the domestic factors have been pulling the Indian economic growth down. However, it is hoped that the decelerators shall soon be removed as the troughs have been reached and economic variables have started moving up giving support to each other.

Economic Growth



Source: CSO

Note: Gross Domestic Product (GDP) at constant price

Composition of Sub-Sectors of GDP

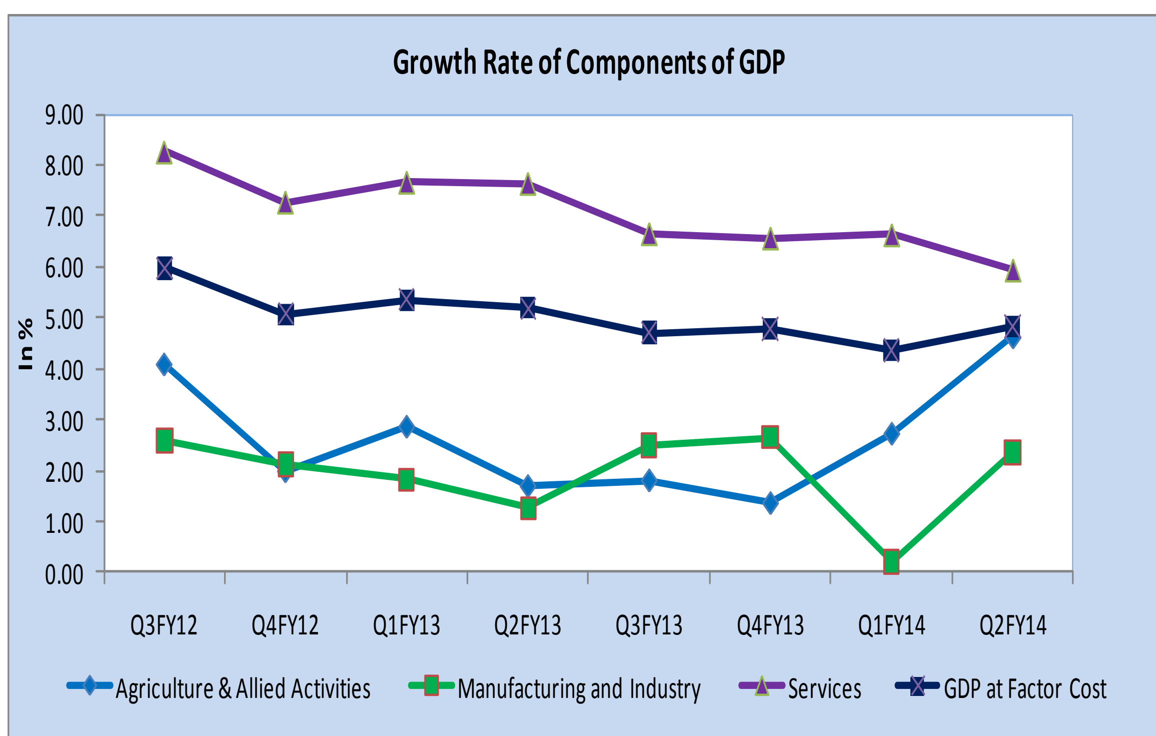
(Amount In ₹ Billion)

Sectors	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
Agriculture & Allied Activities	**2338.94**	**1946.49**	**1768.88**	**1413.34**	**2381.06**	**1972.82**	**1817.05**	**1478.74**
Manufacturing and Industry	**3590.46**	**3833.99**	**3588.90**	**3519.99**	**3679.91**	**3935.81**	**3596.39**	**3602.71**
Mining & Quarrying	273.45	307.58	263.02	243.45	271.57	298.15	255.68	242.45
Manufacturing	2026.65	2171.36	2012.30	2000.01	2076.89	2227.28	1988.27	2020.27
Electricity, Gas & Water Supply	246.86	250.20	260.18	253.86	257.98	257.16	269.78	273.48
Construction	1043.50	1104.85	1053.40	1022.67	1073.47	1153.22	1082.66	1066.51
Services	**7583.13**	**8256.78**	**7784.76**	**8121.96**	**8087.72**	**8799.18**	**8301.04**	**8604.49**
Trade, Hotel, Transport and Communications	3567.68	3881.89	3701.97	3699.96	3795.50	4122.91	3845.67	3849.50
Finance, Insurance, Real Estate & Business Services	2385.86	2461.24	2509.55	2539.96	2572.16	2685.16	2733.88	2793.10
Community, Social & Personal Services	1629.59	1913.65	1573.24	1882.04	1720.06	1991.11	1721.49	1961.89
GDP	**13512.53**	**14037.26**	**13142.54**	**13055.29**	**14148.69**	**14707.81**	**13714.48**	**13685.94**

Growth Rate of Sub-Sectors of GDP

(In %)

Sectors	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
Agriculture & Allied Activities	**4.09**	**1.98**	**2.86**	**1.69**	**1.80**	**1.35**	**2.72**	**4.63**
Manufacturing and Industry	**2.59**	**2.12**	**1.82**	**1.27**	**2.49**	**2.66**	**0.21**	**2.35**
Mining & Quarrying	-2.63	5.17	0.37	1.68	-0.69	-3.07	-2.79	-0.41
Manufacturing	0.66	0.11	-1.04	0.06	2.48	2.58	-1.19	1.01
Electricity, Gas & Water Supply	7.66	3.54	6.16	3.20	4.50	2.78	3.69	7.73
Construction	6.89	5.09	7.04	3.13	2.87	4.38	2.78	4.29
Services	**8.26**	**7.27**	**7.66**	**7.64**	**6.65**	**6.57**	**6.63**	**5.94**
Trade, Hotel, Transport and Communications	6.88	5.07	6.10	6.80	6.39	6.21	3.88	4.04
Finance, Insurance, Real Estate & Business Services	11.42	11.35	9.28	8.33	7.81	9.10	8.94	9.97
Community, Social & Personal Services	6.84	6.81	8.86	8.39	5.55	4.05	9.42	4.24
GDP at factor cost	**5.97**	**5.07**	**5.35**	**5.19**	**4.71**	**4.78**	**4.35**	**4.83**



The growth rate of the GDP of the H1FY14 seems to indicate the reversal of the depressing trends that the economy has been witnessing since the last two years. While the increase in the GDP in the period ranging from July 2012 to September 2012 (Q2FY12) (6.51%) and Q2FY13 (5.19%) has been lower than the Q1FY12 (7.49%) and Q1FY13 (5.35%) respectively, the growth has been higher in Q2FY14 (4.83%) than in Q1FY14 (4.35%). Assuming that the trend set in Q2FY14 continues India can hope to recover from the declining growth of its economy by the end of FY14. One of the

factors playing an important role is the low base effect. At the same time, the improvement in Q2FY14 can also be attributed to a number of economic factors.

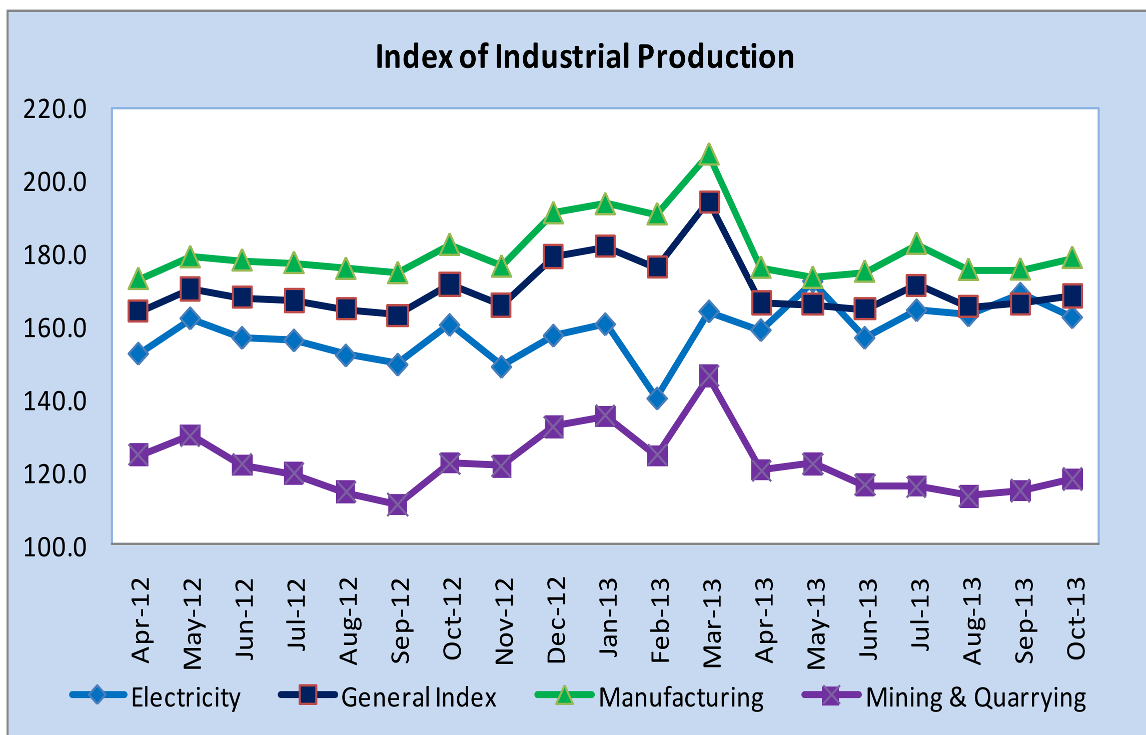
Both the primary sectors: 'agriculture and allied activities' and 'manufacturing and industry' have shown resurgence in Q2FY14. Adequate rainfall indicates a growth in the production of important crop of rice apart from crops such as maize, castor-seed and oilseeds. Manufacturing and Industry sector too has shown signs of growth driven by an improvement in the growth rate of all its sub sectors. Even the mining sub sector has shown a decrease in the negative growth that impinged the manufacturing and industry sector continually since the Q1FY12. The worrying factor for the Indian economy may be the de-acceleration of growth in the services sector. Contributing approx. 62% of the entire GDP, even a small decline in the services sector can have significant impact on the gross GDP growth rate. For the first time since FY11, the services sector has touched below 6.00% growth in Q2FY14. The decrease has been prima facie due to decrease in the community, social and personal services sub sector.

Agriculture and Allied Activities

Agriculture and Allied Activities has slowly and steadily increased its growth rate to early FY12 levels, even though its contribution to total GDP has decreased to 10.80%. As per the first advance estimates data released by Department of Agriculture and Cooperation, improvement in the rainfall at the end of the FY13 has led to an improvement in the crop production, especially rice, maize and oil seeds. Kharif food grain production is estimated to be 129.32 million tonnes in 2013-14 as compared to 117.18 million tonnes in 2012-13.

Moreover, the agricultural produce being traded in the open economy has increased due to the better prices being offered. This is evident by the low off take of the states despite the lower levels of stock being maintained by Food Corporation of India.

Manufacturing and Industry



The reverse trend of GDP in the manufacturing and industry sector indicate a better economic growth rate by the year end. Except for mining and quarrying subsector, all the other sub-sectors of the manufacturing and industry have shown improvement. The electricity, gas and water supply sub sector has shown an impressive growth rate at 7.73% followed by 4.29% growth in the construction sub sector. The manufacturing sub sector has reversed the declining trend to grow at 1.01% in Q2FY14. In fact, the decline in the mining and quarrying also has been the lowest since FY12 at 0.41% only in Q2FY14.

The manufacturing sub sector has gained from the easing of the monetary policies in wake of high inflation. The Cabinet Committee of Investment (CCI) established for quick approval of large stalled projects has started making some head way towards its objective. New acts such as land acquisition and companies act have been passed which were long impending. At the same time, the government has taken some initiatives to break the legislative hurdles that have been hindering the growth of a conducive environment, especially in the construction, electricity, gas and water supply and mining and quarrying sub sectors. This has prompted some of the investors into the Indian financial market which has lead to a better growth rate of the manufacturing and industry sub sector in Q2FY14. The core 8 infrastructure-supportive industries have also registered an overall increase for September 2013.

	Production Growth in Core Infrastructure Supportive industries (%)	
Industry	**September 2012**	**September 2013**
Coal	22.2	12.5
Crude Oil	-1.8	0.6
Natural Gas	-14.8	-14.1
Refinery Products	34.9	8.0
Fertilizers	5.7	5.3
Steel	1.3	6.6
Cement	13.8	11.5
Electricity	3.9	12.6
Overall	**8.3**	**8.0**

Service

The most worrying factor for the Indian GDP growth is the service sector, which contributes approx. 62.8% of the gross GDP in FY13. Its share in the gross GDP has been slowly and steadily increasing and is at its highest since FY11, at least. However, a decline in the growth rate of such a significant player has the ability to pull down the entire sectoral growth rate. The lead factor in the decline in Q2FY14 is the community, social and personal services sub sector. Medical tourism and the high standards of our best educational institutions had been driving this sub sector. However, due to a depreciating rupee in the year beginning the sub sector has suffered in the Q2FY14. The consumers spend on recreational and cultural activities due to multiple factors including food inflation.

A stability in the Indian rupee and the various policies by the regulatory agencies have supported the finance, insurance, real estate and business services and trade, hotel, transport and communications sub sectors in the recovery.

Consumption Drivers

Growth in %	Q2FY13	Q2FY14
Production of Food Products and Beverages	0.91	1.14
Production of Apparel	5.40	33.51
Production of Consumer Goods	1.37	-0.28
Deployment of Bank Credit to Housing**	11.25	20.01

* Source: RBI

** including priority sector housing

The above table indicates that there has been a significant growth in the apparel and housing industry groups in the Indian economy. This is indicative of the increasing government support to these industry groups. The globalization and changing demographics and the commitment of the government towards the land acquisition act had a positive impact on the consumption levels of the overall economy. This has been supported by the increase in supply of textiles and housing by conscientious efforts by the government such as increased subsidy to textile manufactures, increased FDI investment and policy changes by the government.

Investment Drivers

Industry wise Deployment of Gross Bank Credit

Particulars	Share towards Deployment of Gross Bank Credit As on 18th October 2013 (%)	YOY Growth (%) (October-October)	
		2012	2013
Infrastructure	33.47	16.93	18.08
Basic Metal & Metal Product	14.33	21.96	17.17
Textiles	7.93	13.58	13.95
Chemicals & Chemical Products	6.82	17.95	22.53
All Engineering	5.83	16.12	16.68
Food Processing	5.18	25.29	26.45
Gems & Jewellery	2.95	15.99	26.77
Vehicles, Vehicle Parts & Transport Equipment	2.73	12.89	12.27
Petroleum, Coal Products & Nuclear Fuels	2.55	1.61	17.20
Construction	2.41	10.62	16.38
Cement & Cement Products	2.10	22.16	19.05
Rubber, Plastic & their Products	1.45	6.03	11.82
Mining & Quarrying (incl. Coal)	1.41	15.34	3.41
Paper & Paper Products	1.33	13.85	17.18
Beverage & Tobacco	0.69	-0.37	6.28
Leather & Leather Products	0.40	4.91	16.81
Wood & Wood Products	0.36	17.85	26.54
Glass & Glassware	0.34	14.33	18.26
Other Industries	7.69	22.64	-2.74
Industries	**100.00**	**17.12**	**15.94**

Source: RBI

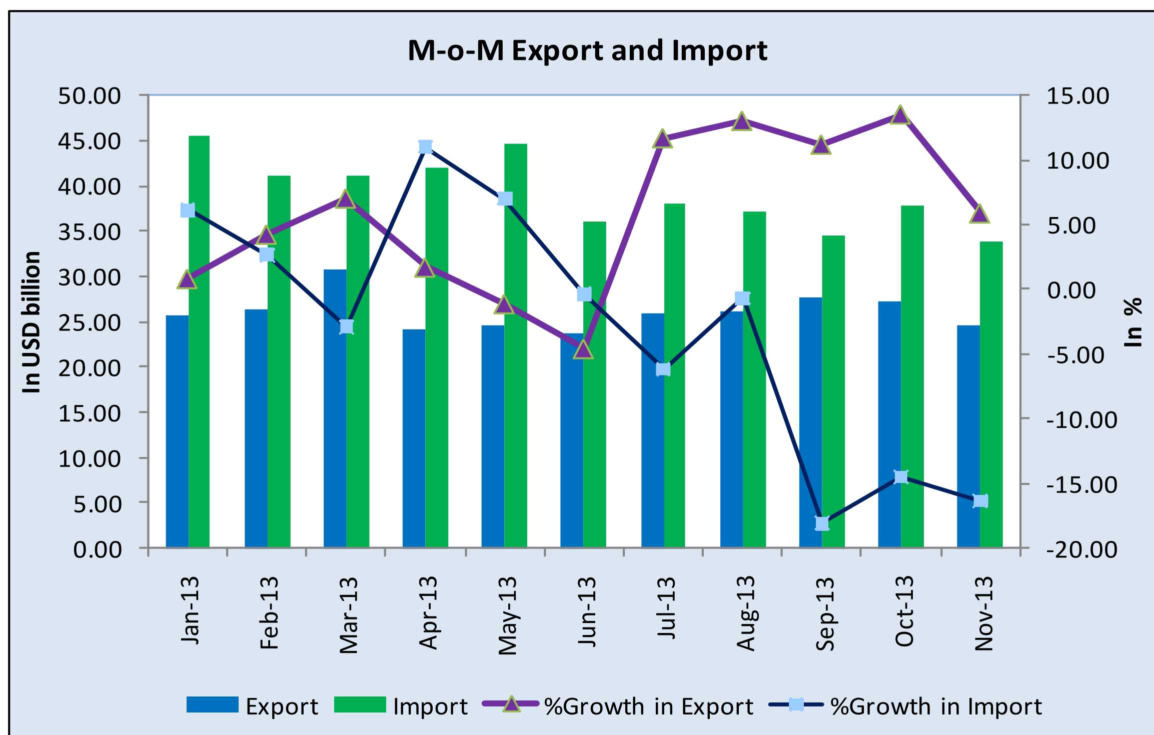
Registering a growth of 15.94% (YoY) as on 18th October 2013, vis-à-vis 17.12% for the corresponding period last year, credit deployment towards industry has remained subdued signifying that entrepreneurs are not willing to take risk in these gloomy market conditions. Infrastructure (33.47%), basic metal and metal products (14.33%), textiles (7.93%), chemical and chemical products (6.82%), engineering (5.83%) and food processing (5.18%) industries have accounted for major shares in overall credit to industry.

Industries which have seen an enhancement in credit deployment of more than 5 percentage points include gems & jewellery, petroleum, coal products and nuclear fuel, rubber, plastic & plastic products, leather & leather products, wood & wood products and beverage & tobacco.

The decline in credit deployment growth towards industry was mainly due to slower pace or decline (in some cases) of credit deployment in industries like mining and quarrying, cement and cement products, basic metal and metal products and other industries (which has gone down to -2.74% in October 2013 from 22.6% in October 2012). Decline in credit to mining and quarrying (incl. coal) industries settled at 3.41% this financial year so far when compared with 15.34% last year and this has had a major effect on the overall scenario of credit deployment towards the industry.

The slowdown in credit off-take has been grim on account of lower demand of funds owing to high cost of borrowings and decline in investment due to slowdown in the consumption.

Export-Import Trend



Foreign Trade
(USD billion)

Month	Export	%Growth in Export (YOY)	Import	%Growth in Import (YOY)	Trade Balance
Jan-13	25.59	0.82	45.58	6.12	-19.99
Feb-13	26.25	4.23	41.18	2.65	-14.92
Mar-13	30.85	7.00	41.16	-2.90	-10.31
April-13	24.16	1.70	41.95	11.00	-17.78
May-13	24.50	-1.11	44.64	6.99	-20.14
June-13	23.78	-4.56	36.03	-0.37	-12.25
July-13	25.83	11.64	38.10	-6.20	-12.27
Aug-13	26.14	12.97	37.05	-0.68	-10.92
Sep-13	27.68	11.15	34.43	-18.10	-6.76
Oct-13	27.27	13.47	37.82	-14.50	-10.55
Nov-13	24.61	5.86	33.83	-16.37	-9.22

Source: Ministry of Commerce & Industry

India's trade deficit narrowed to a 30-month low at USD6.76 billion in September 2013 as exports continued double digit growth while imports contracted. In September, merchandise exports grew 11.15% to USD27.68 billion, while imports contracted 18.10% to USD34.44 billion. India has been recording sustained trade deficits due to low exports base and high imports of coal and oil for its energy needs. However, post the steps taken by the government to curb the import of non-essential items such as precious metal and also due to a slight fall in the import of crude oil, trade deficit has contracted. India is a leading exporter of petroleum products, gems and jewelry, textiles, engineering goods, chemicals and services. Main trading partners are European Union countries, United States, China and UAE.

In November, growth of India's merchandise exports eased to a five-month low of 5.86% to USD24.6 billion as the shipments of gems & jewellery, petroleum products and pharmaceuticals declined. In fact, the top three contributors to the Indian exports basket could not keep pace in November. The key market of the US has not been supportive of late. Shipments to the US have declined year-on-year in November 2013 to USD0.48 billion from USD0.51 billion in the same month last year. Likewise the trend has not been very encouraging in some of the important markets of Europe. Imports during the month declined 16.37% to USD33.83 billion as gold imports continued to fall because of restrictions put in place by the government. Gold and silver imports went down 80% to USD1.05 billion from USD5.4 billion. Imports of petroleum, too, went down.

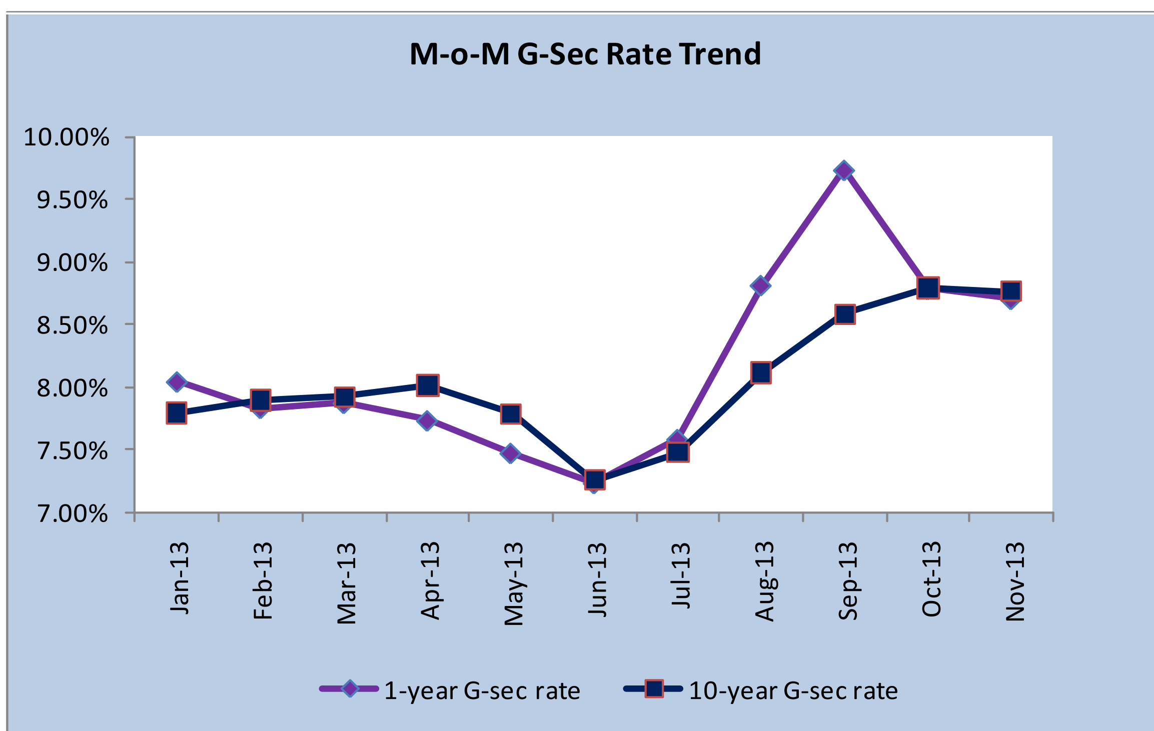
Interest Rate

Item/Week Ended	2013			
	19-Mar	15-Jul	7-Oct	26-Nov
Cash Reserve Ratio	4.00	4.00	4.00	4.00
Repo Rate	7.50	7.25	7.50	7.75
Reverse Repo Rate	6.50	6.25	6.50	6.75
Marginal Standing Facility (MSF)	8.50	10.25	9.00	8.75

Source: RBI

Since July 2013 a number of measures have been put in place by RBI in order to reduce the volatility in the foreign exchange market. On 7th October 2013, there has been a further cut in the MSF rate from 10.25% to 9.00% in the wake of strengthening of rupee and easing of money market operations.

With the rise in headline inflation, both retail and wholesale, there has been further rate cut by RBI. On 26th November 2013, RBI has increased the repo rate by 25 basis points from 7.50% to 7.75%. Subsequently the reverse repo rate under the LAF stands at 6.75%. The MSF has been reduced by 25 basis points from 9% to 8.75%. Under the second monetary policy review, the rates have remained unchanged.

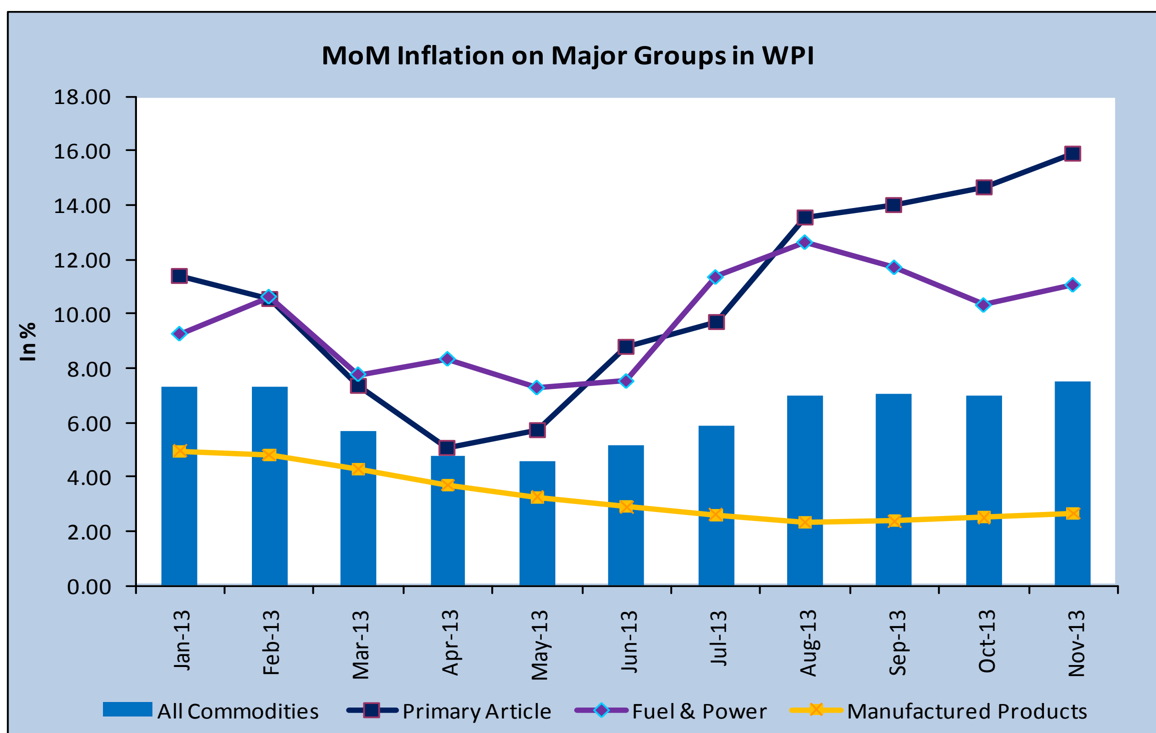


Source: FIMMDA

Due to weakening of economic fundamentals (slowing GDP growth, high inflation, and depreciating rupee) along with uncertainty in the global markets, the implicit yield in the past three months has varied from 8.18% to 9.00% - a differential of around 100 bps. There has been a continuous rise in the G-sec rate on account of sudden fall in the value of rupee and increased attractiveness of US securities, on the back of improvement in the US economy and hopes of possible partial withdrawal of US Federal Reserves' liquidity infusion measures.

With reduction in the MSF rates from September 20, 2013 onwards, G-Sec yields started moderating from their elevated levels and volatility also started declining.

Inflation



Source: RBI

WHOLESALE PRICE INFLATION (%)

Commodity	Weight	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	Jun 2013	Jul 2013	Aug 2013	Sep 2013	Oct 2013	Nov 2013
ALL COMMODITIES	100.00	7.31	7.28	5.65	4.77	4.58	4.86	5.79	6.99	7.05	7.00	7.52
Primary Articles	20.12	11.41	10.54	7.36	5.06	5.72	8.14	8.99	13.57	14.03	14.68	15.92
Food Articles	14.34	12.35	11.95	8.63	6.08	8.25	9.74	11.91	19.17	18.68	18.19	19.93
Non-Food Articles	4.26	13.00	10.71	9.32	7.59	4.88	7.57	5.51	1.21	4.92	6.79	7.60
Minerals	1.52	4.03	2.79	-1.95	-4.52	-7.03	-0.52	-2.38	1.99	2.33	7.03	6.09
Fuel & Power	14.91	9.27	10.64	7.76	8.33	7.27	7.12	11.31	12.66	11.72	10.33	11.08
Manufactured Products	64.97	4.95	4.80	4.28	3.69	3.25	2.75	2.81	2.31	2.36	2.50	2.64

Inflation started moderating in the second half of 2012-13 and touched a 43-month low of 4.58% in May 2013. But, it started rising once again from June 2013. The rise was quite rapid and it reached a high of 7.52% in November 2013 compared to 7.00% for the previous month. The increase has been primarily on account of food articles (to 19.93% from 18.19%) and fuel & power (to 11.08% from 10.33%).

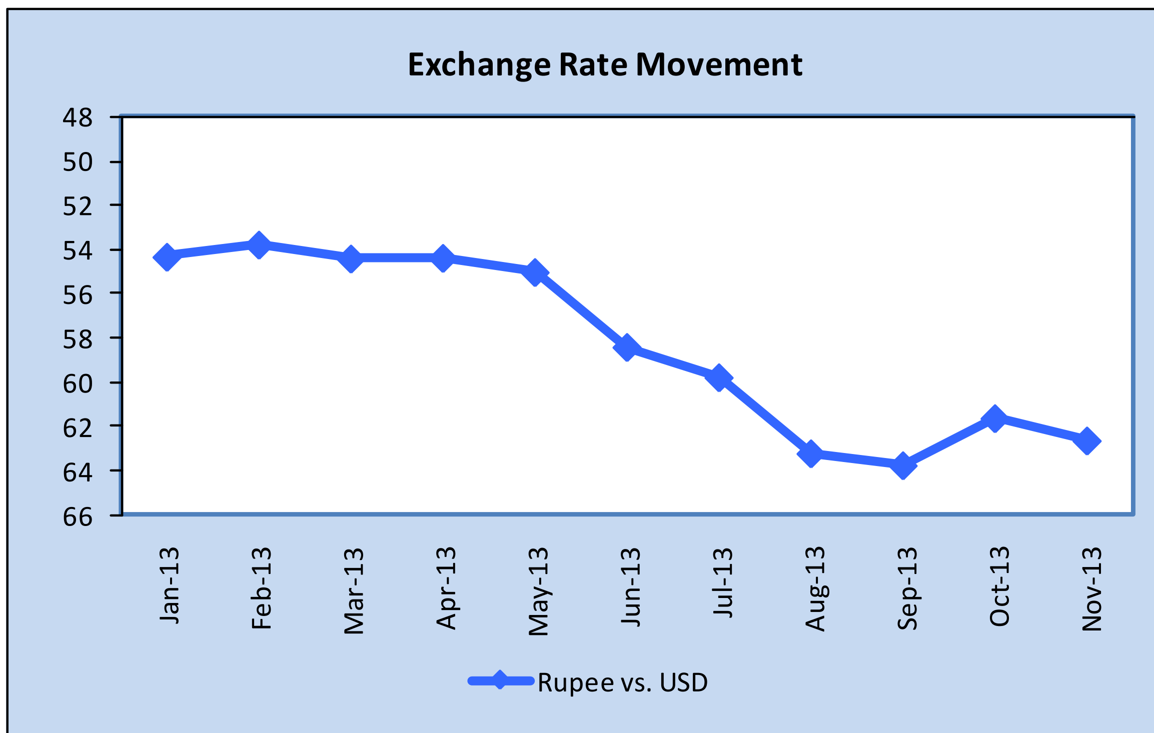
The exceptional rise in prices of food articles was because of supply disruptions due to heavy rainfall during the monsoon season, non-seasonal showers and supply chain bottlenecks caused by bandhs and blockades. The inflation for 'Food Articles' group rose by 9.56% in November 2013 due to higher price of egg, vegetables, condiments and spices, milk and pulses. However, the prices of fish-inland, tea, gram and poultry chicken and rice declined.

Inflation related to fuel & power rose to 11.1% in November 2013 from 10.3% in October 2013. The index for this major group rose due to higher price of LPG, bitumen and high speed diesel. The substantial increase in this group has been due to power tariff hikes by electricity boards across India and petroleum product price hikes due to depreciation of Indian rupee and partial decontrol of diesel.

Wholesale Inflation in manufactured product group hovered in the range of 2-3% during April-November 2013. The inflation related to the manufactured products rose only marginally due to sluggish demand scenario and discretionary spending in India. Inflation in export oriented commodities and those using imported inputs such as textiles, leather and rubber & plastic products registered an increase in line with the rupee depreciation. Notably, chemicals & chemical products, basic metals, alloys & metal products and transport equipment & parts (with a combined weight of ~28% in the WPI Index) recorded a marginal decline in November 2013.

FINANCIAL MARKET

Currency Market



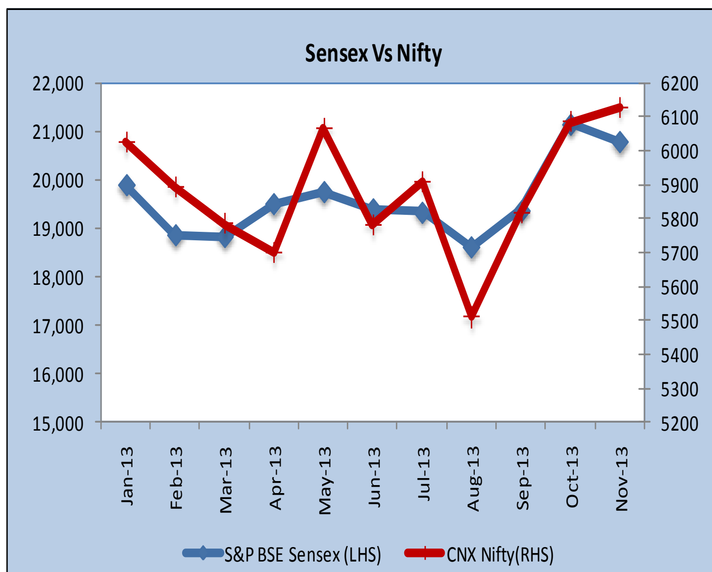
Source: RBI

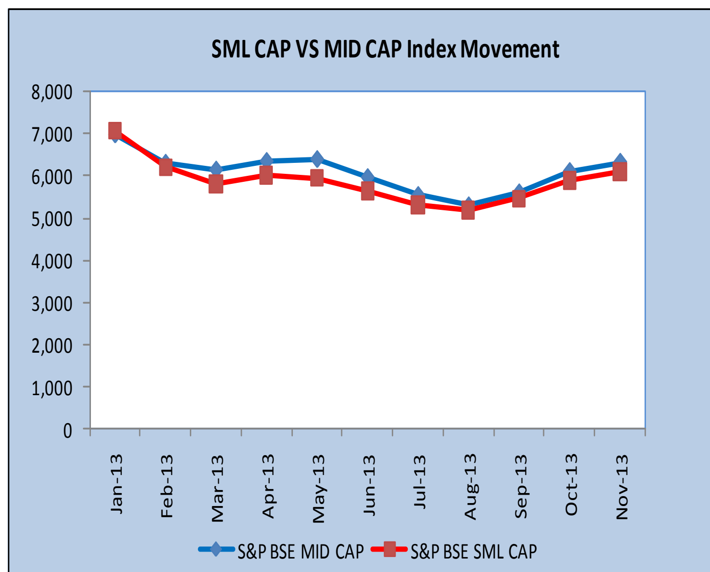
* Units on y-axis in reverse scale

The rupee leads the losers' chart among Asian currencies in the April-August by plunging 16.24%, during the period due to massive capital outflows on worries of withdrawal of the US stimulus. The fall in rupee also lead to capital erosion as foreign investors pulled out their investment. Apart from this, speculation in the currency market, rising CAD and uncertain policy regime have aggravated the situation. Rupee has reached all time low of 68.36 per dollar on 28th August 2013

The government and RBI have taken various steps ranging from special swap window for oil marketing companies so that they can directly borrow dollar from RBI, increased borrowing limit for the banks, attracting NRI deposits. The rupee has started improving since September 2013 on the hope of market friendly policy and expected delay in withdrawal of quantitative stimulus of US Federal Reserve.

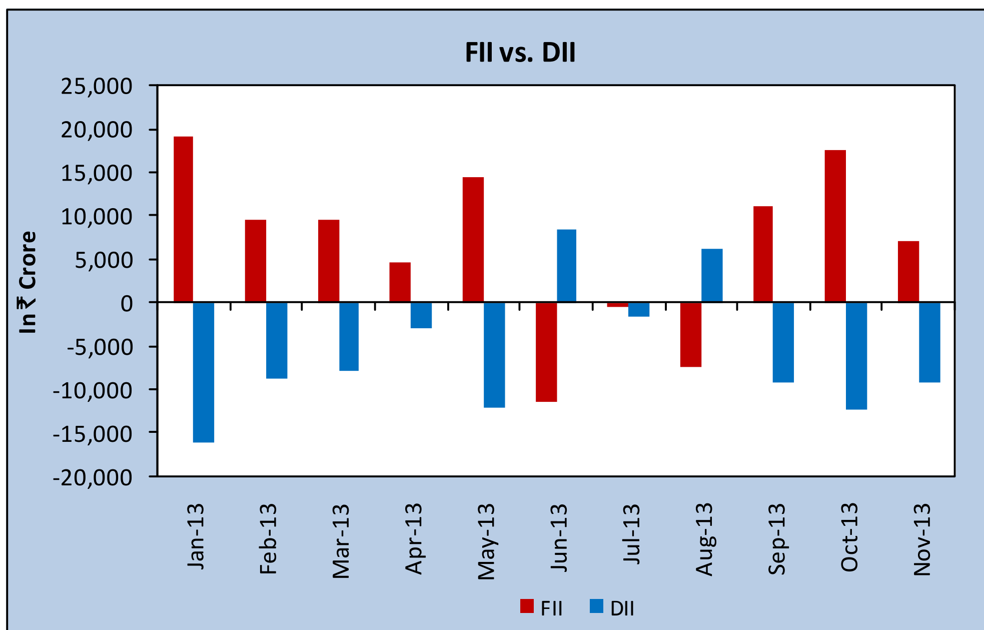
Equity Market





Source: BSE & NSE

FII vs. DII Movement



Source: SEBI

Globally there has been some turmoil in financial markets due to concerns over the withdrawal of monetary stimulus known as quantitative easing in the US.

If we see monthly trend in 2013, in the months of June, July and August market was affected by bearish sentiments and foreign institutional investors (FIIs) inflow was trending on the lower side of the x-axis as compared to past few months. Macro-prudential policy measures initiated by the RBI and the government have brought some stability to the markets

and exchange-rate volatility has been contained thus far. In order to maintain the momentum gained by the respite, the government should push through long-delayed legislative reforms and get stalled infrastructure projects moving again.

Subsequent to the Federal Reserves' mid-June 2013 tapering announcement, FIIs withdrew from the Indian equity and bond markets, but returned as net buyers to the equity market in September 2013. While the actions of domestic and foreign institutions are counterbalancing, the dominance of foreign institutions prevails. Mid cap and small cap indices were also trending in the same direction as of other main indices like Sensex and Nifty, showing an upswing post September.

Outlook

The Reserve Bank of India scaled down its economic growth forecast for current fiscal from 5.5% to 5% due to ongoing downturn in both consumption and investment demand as reflected by contraction in consumer durables and capital goods sector.

The growth rate of the Indian economy is expected to pick up, although gradually but will continue to remain below the higher average growth rate of the last five years. This expectation would be driven on the back of normal monsoons giving a good harvest, increase in investments in a favourable interest rate regime and gradual recovery in industrial production.

GDP Growth Forecast for 2013-14	
Agency	**% Growth**
Reserve Bank of India	5.0
Asian Development Bank	4.7
World Bank	4.7
International Monetary Fund	3.7

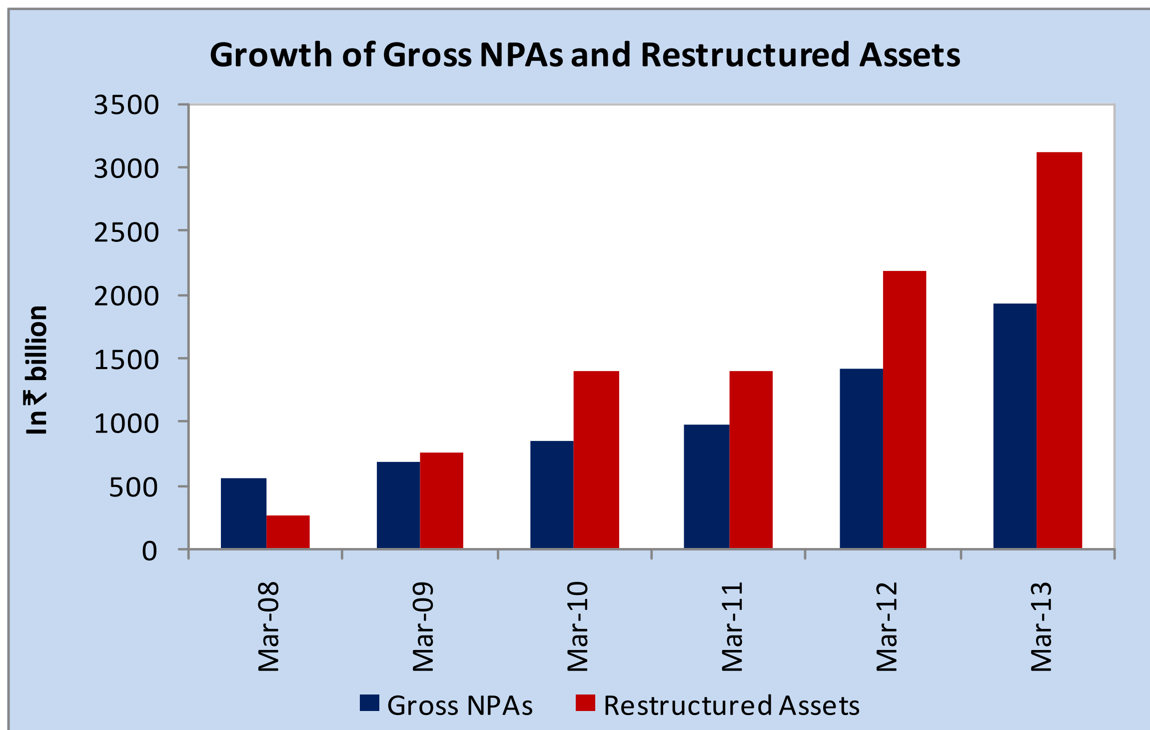
Strengthening of export growth and signs of revival in some services, along with the expected pick-up in agriculture, could support an increase in growth in the second half of 2013-14 relative to the first half. Also revival of large stalled projects and clearances by the Cabinet Committee on Investment (CCI) would buoy investment and overall economic activity during the year.

BANKING SECTOR PERFORMANCE

The performance of the banking sector is more closely linked to the economy than that of any other sector. The growth of the Indian economy is estimated to have slowed down from 6.2 percent in FY12 to 4.8 percent in Q2 2013-14. This slowdown could be attributed to a number of factors such as weaker global economic condition of Europe and United States, high inflation leading to high interest rates and rupee devaluation. Amid this difficult macroeconomic environment during the year, the Indian banks witnessed worsening asset quality, declining Net Interest Margin (NIMs) and low growth rate of bottom line. With the inflation remaining high there has been an increase in the cost of funds which has adversely impacted the profitability of banks.

Deterioration of Asset Quality

Non Performing Assets (NPAs) affects liquidity and profitability of the banks, in addition to causing damage on the quality of asset of the bank. Overall Gross NPAs have risen from 2.3% in FY08 to 3.2% in FY13. As per RBI, Net Non Performing Assets to total assets ratio has increased from 1.28% in FY12 to 1.68% in FY13. The total value of bad loans of public sector banks has been established at ₹1.83 Lac crore as on June 30, 2013. In fact, the banking system has written off more than about ₹ 1 Lac crore in the last 13 years and approx. 95% of the amount was due to large borrowers. NPAs not only reduce the loan book and interest income considerably, but also require incurring a lot of costs by ways of resources spent to salvage the recoverable amount, under-recoveries and write-offs. Since all the banks play upon exposure, too much of NPAs can disorder the financial stability of the bank and can constraint its profitability, liquidity and lending capacity significantly.



Restructured portfolio is another major contributor for rise of NPAs in the recent years on account of economic slowdown, rising interest rates and export sluggishness. The restructured standard advances also increased to 6.0% of total advances as at end September 2013 from 5.7% in March 2013. The largest contribution comes from the PSU banks.

To support the ailing sectors, banks are undertaking restructuring of advances through relief measures such as reduction of interest rate, extension of repayment schedule etc., to make them viable and bring back to normalcy. Among the selected seven sectors, Agriculture, Construction, Iron & Steel and Engineering sectors registered highest NPA compared to other sectors. The low level of NPA under infrastructure sector can be attributed to increased incidence of shifting of infra advances to restructured portfolio. If the present trend is not addressed, this sector is likely to witness higher slippage ratio in the ensuing years.

Table 1: Sectoral NPA as on 31st March 2013

Sector	Percent
Agriculture	4.7
Construction	4.0
Cement	2.7
Infrastructure	1.5
Iron & Steel	4.0
Engineering	3.7
Automobile	1.8

Source: Financial Stability Report June 2013

Public Sector Banks (PSBs) share a disproportionate and increasing burden of NPAs among the bank groups (i.e., share in gross NPAs as compared to share in advances). The share of PSBs in gross NPAs has increased over the last decade and particularly since 2009 (Table 1). NPAs in PSBs accounted for 85% of the NPAs of the banking system in 2013 as compared to 65% in 2009. This is in sharp contrast to the performance of the other segments of the banking system, especially the new private sector banks, whose share in NPAs has fallen from over 10% in 2009 to 8% in 2013.
The PSBs, which account for almost three-fourths of the aggregate deposits, registered a lower growth in profits as compared to their private counterparts, mainly due to asset quality related changes and increase in provisions towards impaired assets and staff expenses (including pension liabilities).

Table 2: Bank Group Wise Share In Gross NPAs

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
PSBs	71.1	64.5	70.8	76.3	82.6	84.8
Old Private Banks (OPBs)	4.6	4.5	4.3	3.8	3.0	2.8
New Private Banks (NPBs)	18.7	20.3	16.5	14.8	10.1	8.0
Foreign Banks (FBs)	5.6	10.7	8.4	5.2	4.4	4.3

There has also been an increase in the write offs done by the banks in order to reduce NPAs which reflect the weakness in the credit management and lack of proper monitoring.

Table 3: Write-offs of NPA during the fiscal year ended (₹ Billion)

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13
All Banks	116.5	159.9	250.1	238.9	208.2	322.1
PSBs	80.2	69.6	111.8	177.94	155.5	270.1
Old Private Banks (OPBs)	7.2	6.1	8.8	6.8	6.7	8.6
New Private Banks (NPBs)	15.7	50.6	67.1	23.3	30.2	34.8
Foreign Banks (FBs)	13.3	33.5	62.3	30.8	16.4	8.5

Impact of NPAs on the Bank's Profitability

Due to stressed asset quality the profitability of the banks has been severely impacted as can be seen by the table below (Table 4). The profitability of all schedules commercial banks (SCBs), measured by return on assets (ROA) and return on equity (ROE) declined to 0.8% and 10.2% in September 2013, respectively, from 1.0% and 12.9% in March 2013. The growth in profit after tax (PAT) decelerated to -9.7% during September 2013 from 12.9% of March 2013, mainly due to the lower growth in net interest income, higher risk provisions and write-offs.

Table 2: Performance of SCBs

YOY Growth (%)				
	Net Interest Income Growth	Risk Provisions Growth	Profit After Tax Growth	Return on Assets
Mar-09	24.4	35.5	23.3	1.1
Mar-10	14.8	13.2	4.3	1.0
Mar-11	34.6	38.6	23.6	1.1
Mar-12	15.8	35.6	14.6	1.1
Mar-13	10.8	10.2	12.9	1.0
Sep-13	11.6	63.2	-9.7	0.8

Outlook

Although the sluggishness in economy is quoted as one of the primary reason for increasing stress on the credit quality of the assets, banks have a huge responsibility in terms of credit monitoring and recovery system. Selection of right borrowers, viable economic activity, adequate finance and timely disbursement, intended end use of funds and timely recovery of loans should be the focus areas for preventing or minimizing the incidence of fresh NPAs. Key challenge going forward for Indian banks is to expand credit portfolio and effectively manage NPAs while maintaining profitability. Asset quality continues to be the core function and also biggest challenge for the banks in the present dynamic environment. Though, management of asset quality is a balance sheet issue of individual banks, it has wider macro economic implications. In order to overcome the associated risks including externalities, there is an imminent need for the banks to have well structured and effective credit monitoring system in place coupled with appropriate business models.

There is a need to exercise tighter exposure norms before pledging the money by the lenders. Tightening of exposure norms is necessary considering RBI has advised banks to be Basel III compliant by March 2018. Moreover, transparency of data and easy access to data is required to avoid unnecessary risk taking. Government, Ministry and RBI should make collective and calculated efforts to empower banks, financial institutions and stock exchanges. Awareness amongst the investors and the lenders needs to be created on the existing and the probable defaulters. All defaulters should be devoid of the banking channels and further pecuniary transactions should be avoided with them. A stringent example needs to be set to minimize the NPAs. Unless the banking system of the economy is strong, it will be difficult for India to create a healthy investment and growth-oriented environment.

INDUSTRY UPDATE – HEALTHCARE INDUSTRY

The Indian healthcare industry has seen a paradigm shift in the last couple of decades. Starting from the basic healthcare clinics the industry has moved towards specialty clinics and multispecialty hospitals with world class facilities. It has emerged as one of the largest revenue & employment generator with a market size of USD79.00 billion in 2012. Indian health care industry grew at a CAGR of 16% during the 1990s and at CAGR of 15% in the last decade. It is expected to touch USD280 billion by 2020 with estimated CAGR of 21%. Driven by the continuously rising demand, the hospital services industry is expected to be worth USD81.2 billion by 2015. The Indian hospital & diagnostic service industry has shown a northward movement due to which it has received foreign direct investment (FDI) worth USD 2.05 billion during April 2000 to September 2013 and is expected to receive more in the coming years. The industry is growing incessantly driven by a large and growing population, growing economy, expanding middle class, growing lifestyle related health issues, thrust in medical tourism, increase in disposable income, government social sector initiatives on penetration of health insurance and increase in awareness level of the common masses.

The growth in the industry is not enough to cater to the demand of the market as the major chunk of the Indian population residing in the rural areas are still starving for the basic medical assistance as there is paucity of beds, medical facilities, critical medicines, skilled workforce and healthcare centers.

In order to improve the accessibility to health care facilities, government of India (GOI) has opened several health care centers and has launched several programs for the benefit of common masses. Government has also made investment in the field of research and development. The GOI has announced the Science, Technology and Innovation Policy 2013 and has proposed to increase the gross expenditure on research and development to 2% of GDP in FY14 from less than 1% in previous financial year. In order to provide better medical care facilities to the common masses the government spending on health care has been increased to 2.5% of GDP in the 12th five year plan (2012 – 17).

Even after commendable efforts of public and private sectors India needs 100,000 beds each year for the next 20 years to maintain the global standards of 3 beds per 1000 people as compared to current level 0.7 beds. To bridge the gap of demand and supply it is required that the country should come out with a public private partnership model which can satisfy the requirement of the common masses and can make India best in class healthcare service provider in the world.

The industry has vast scope of development as India requires additional 1.8 million beds by 2025. 1.54 Million Doctors and 2.4 million nurses are required to meet the growing demand. Untapped rural India is emerging as a potential demand source as only 3% of specialist physicians are looking after 70% of Indian population. Health insurance sector has huge potential as less than 15% of population is covered under health insurance schemes while 85% still remains untapped. Contract research is a buzz word in Indian healthcare industry and is increasing day by day as clinical research in India is 60% cheaper than in the USA. Medical tourism is going to provide huge amount of revenue as cost of surgery in India is nearly one-tenth of the cost in developed countries. The government is also providing several benefits to the investors. Considering the optimistic atmosphere and growth prospect the global giants are keen towards investing in the Indian markets and are eyeing on the untapped market in tier II, Tier III cities and the rural India. The healthcare industry in India has a huge growth potential and has seen tremendous growth in the past and will see an upward moving slope in the coming future as well.

ONICRA RATED ENTITIES

PROFILE OF ONICRA RATED MSMEs (For the Period – 1st October 2013 to 31st December 2013)

Geographical Distribution of Ratings

State	Percentage Wise
Andhra Pradesh	7.08
Arunachal Pradesh	0.00
Assam	6.79
Bihar	1.73
Chandigarh	0.20
Chhattisgarh	0.25
Delhi	1.09
Gujarat	6.09
Haryana	0.94
Himachal Pradesh	0.15
Jammu & Kashmir	0.30
Jharkhand	0.64
Karnataka	9.36
Kerala	0.15
Madhya Pradesh	5.10
Maharashtra	4.41
Manipur	0.00
Meghalaya	0.25
Nagaland	0.00
Orissa	1.68
Punjab	3.52
Rajasthan	7.97
Tamil Nadu	10.10
Tripura	0.00
Uttar Pradesh	11.44
Uttarakhand	3.47
West Bengal	17.29
Total	**100.00**

Onicra- Rated MSME: Industry Wise Distribution

Industry	Number of Cases	Percentage Wise
Agriculture & Allied Products	208	10.3
Auto & Auto Components	51	2.53
Chemicals	50	2.48
Construction & Engineering	116	5.75
Construction-Materials	115	5.70
Consumer Durables	41	2.03
Containers & Packaging	62	3.07
Educational Services	28	1.39
Electrical Components & Equipments	74	3.67
Food Products	96	4.75
Hospitality	21	1.04
Health Care	11	0.54
Household & Personal Products	62	3.07
Information Technology & Telecommunications	27	1.34
Iron and Steel	76	3.76
Jewellery	35	1.73
Machinery and Equipments	148	7.33
Media & Printing	53	2.63
Metal and Metal Products	45	2.23
Paper & Forest Products	40	1.98
Pharmaceuticals	20	0.99
Plastic & Plastic Products	64	3.17
Power & Energy	31	1.53
Retailing	85	4.21
Services	123	6.08
Textile	192	9.51
Transportation	7	0.35
Others	138	6.84
Total	**2019**	**100.00**

NSIC-ONICRA Rating Definition

NSIC-Onicra Rating reflects Onicra's opinion on the company's performance capability and financial strength. Ratings are assigned on the scale given below.

Performance Capability	Financial Strength		
	High	Moderate	Low
Highest	SE1A	SE1B	SE1C
High	SE2A	SE2B	SE2C
Moderate	SE3A	SE3B	SE3C
Weak	SE4A	SE4B	SE4C
Poor	SE5A	SE5B	SE5C

Rating Distribution: Onicra Rating

The benefit of getting a SME unit credit rating goes beyond procuring finance at competitive rates. While drawing business from a client located in dispersed geographies or from large corporate and multinationals, the rating exercise also serves as an independent due diligence activity. Further, since Onicra examines the aspects of the SME units, management highlights the shortcoming and areas which requires further improvement. All these benefits create confidence in the client and that has enabled ONICRA to achieve significant growth in the numbers of rating done.

Quarterly Rating Distribution

Rating	Q4FY13 (%)	Q1FY14 (%)	Q2FY14 (%)	Q3FY14 (%)
SE 1A	0.43	0.43	0.35	0.10
SE 1B	1.05	0.66	0.82	0.79
SE 1C	0.43	0.38	1.11	0.64
SE 2A	10.05	2.75	3.97	3.02
SE 2B	32.38	19.51	17.91	12.93
SE 2C	14.02	16.24	20.48	19.86
SE 3A	15.54	4.02	3.97	5.10
SE 3B	20.31	29.92	26.25	24.47
SE 3C	5.49	19.37	15.05	18.23
SE 4A	0.00	0.09	0.41	0.89
SE 4B	0.30	4.50	7.70	11.00
SE 4C	0.00	2.13	1.98	2.97
Total	**100.00**	**100.00**	**100.00**	**100.00**

Quarterly Geographical Distribution

State	Q4FY13 (%)	Q1FY14 (%)	Q2FY14 (%)	Q3FY14 (%)
Andhra Pradesh	6.43	8.81	9.51	7.08
Arunachal Pradesh	0.00	0.09	0.00	0.00
Assam	5.64	5.82	5.31	6.79
Bihar	2.28	3.88	2.51	1.73
Chandigarh	0.58	0.14	0.00	0.20
Chhattisgarh	1.73	1.33	0.99	0.25
Daman	0.00	0.00	0.00	0.00
Delhi	2.06	1.94	2.16	1.09
Goa	0.00	0.00	0.00	0.00
Gujarat	4.26	3.41	4.67	6.09
Haryana	3.18	2.13	1.11	0.94
Himachal Pradesh	0.14	0.19	0.41	0.15
Jammu & Kashmir	0.07	0.00	0.00	0.30
Jharkhand	0.61	0.71	0.58	0.64
Karnataka	8.75	8.57	9.39	9.36
Kerala	0.14	0.00	0.23	0.15
Madhya Pradesh	5.78	4.07	5.19	5.10
Maharashtra	6.18	4.69	7.00	4.41
Manipur	0.00	0.09	0.00	0.00
Meghalaya	0.43	0.38	1.05	0.25
Mizoram	0.00	0.00	0.00	0.00
Nagaland	0.00	0.24	0.00	0.00
Orissa	1.23	2.32	1.87	1.68
Punjab	2.57	3.65	3.33	3.52
Rajasthan	3.14	3.93	5.95	7.97
Tamil Nadu	14.96	12.74	9.04	10.10
Tripura	0.00	0.14	0.00	0.00
Uttar Pradesh	18.54	17.76	15.05	11.44
Uttarakhand	2.49	2.04	1.52	3.47
West Bengal	8.78	10.93	13.13	17.29
Pondicherry	0.00	0.00	0.00	0.00
Total	**100.00**	**100.00**	**100.00**	**100.00**

ONICRA CREDIT RATING AGENCY OF INDIA LIMITED

HARYANA

Gurgaon
Corporate & Rating office
Building No. 21-22, 5th Floor
Udyog Vihar Phase-IV,
Gurgaon-122015
India

ANDHRA PRADESH

Hyderabad
H No. 6-3-652/C/D/13
First Floor, Flat No. IC & 1D,
Dhruvtara Apartment,
Somajiguda, Hyderabad-500082
India

GUJARAT

Ahmedabad
603, Aniket, Above Metro
Showroom, Opp. Jain Derasar, CG
Road, Navrang Pura,
Ahmedabad-380009
India

WEST BENGAL

Kolkata
7B, Justice Dwarka Nath
Road,
Kolkata - 700029
India

KARNATAKA

Bangalore
N-705, 7th Floor, North Block,
Manipal Centre
47, Dickenson Road
Bangalore – 560042
India

MAHARASHTRA

Mumbai
520, 5th Floor
Nirmal Corporate Centre,
Nirmal Life Style,
LBS Marg, Mulund (West)
Mumbai – 400080
India

UTTAR PRADESH

Noida
B10, Sector – 59
Noida – 201301
India

Lucknow
Aman Palace, Purani Chungi,
Kanpur Road
Lucknow
India

TAMIL NADU

Chennai
25, Ranganathan Gardens,
Ground Floor, 15th
Main Road,
Annagar West,
Chennai-600040
India

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