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Rs.1.4 trillion asset sales to cushion corporate credit quality

Deals worth Rs.600 billion seen this fiscal, after Rs.800 billion in the last 18 months: CRISIL

CRISIL believes recent asset sales by domestic companies will support their credit profiles, because this has led to a substantial lowering of debt. In the past 18 months, 21 companies have announced 36 deals to divest assets and sell equity to strategic partners to raise Rs.800 billion -- which is nearly a fifth of their debt. Expected policy reforms and a buoyant capital market should lead to more such transactions. Based on interactions, we expect companies to raise another Rs.600 billion at the very least in 2014-15.

Says Mr. Pawan Agrawal, Senior Director, CRISIL Ratings: "***The increasing trend to divest assets and raise equity is a part of corporates' efforts to surmount the tough phase of the economic cycle. They are now refocusing on core businesses and striving to improve balance sheets***." In the early part of this decade, expansions and diversifications were funded primarily through debt. Over the past three years, the total debt of these 21 companies increased by nearly 50% to Rs.4.4 trillion as on March 31, 2014. However, a slowing economy and rising interest rates meant operating profit stagnated at just 2% during the period. Consequently, asset sales became necessary to cushion the pressure on balance sheets. Companies have also reworked long-term strategies by exiting non-core businesses and divesting overseas assets. "***This should provide greater confidence to their lenders. As the economy picks up, these companies will be in a better position to benefit from emerging opportunities, as compared to the ones that are yet to begin this journey***," **Agrawal added.**

The CRISIL analysis shows nearly 60% of the total divestment of assets was by companies operating in the infrastructure sector such as power, roads and oil & gas. Further, a good 60% of the transaction value also related to non-core sectors as well as overseas assets acquired during the economic upturn in a bid to diversify geographically.

The encouraging part is, with risk appetite improving, global investors have been seeking good quality, cash-generating Indian assets – and were involved in a quarter of the transactions by value.

"**However**," **points out Mr. Manish Gupta, Director, CRISIL Ratings**, "***the extent of improvement in corporate credit profiles will be limited because asset sales also reduce operating cash flows***." More than 90% of completed transactions involved cash-generating assets. Even after asset & equity stake sales, the debt-to-EBITDA multiple of these companies is expected to improve only marginally from nearly 9 times as on March 31, 2014, to just below 8 times over the next one year. "***This underscores the importance of further asset sales. We believe, therefore, that the momentum of asset and stake sales will continue in the medium term,***" **Gupta added**. As for how much corporate credit profiles improve in future, CRISIL believes this will be a function of the quantum of divestments and the sustainability of debt protection metrics.

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