

Mobility in Ratings and Credit Quality: Q1 FY16

The analysis of the credit quality of the entities rated by CARE Ratings and the mobility of their ratings, as captured by the changes in credit ratings assigned to the various businesses and firms that have sought debt finance from the markets and financial institutions, shows that India's corporate credit quality despite moderating in recent quarters has been rather stable.

These findings have been enumerated in our analysis here of the changes of credit rating assigned (upgrades, downgrades and reaffirmations) to the entities that are rated by CARE Ratings over the last 17 quarters (Q1 FY12 to Q1 FY16).

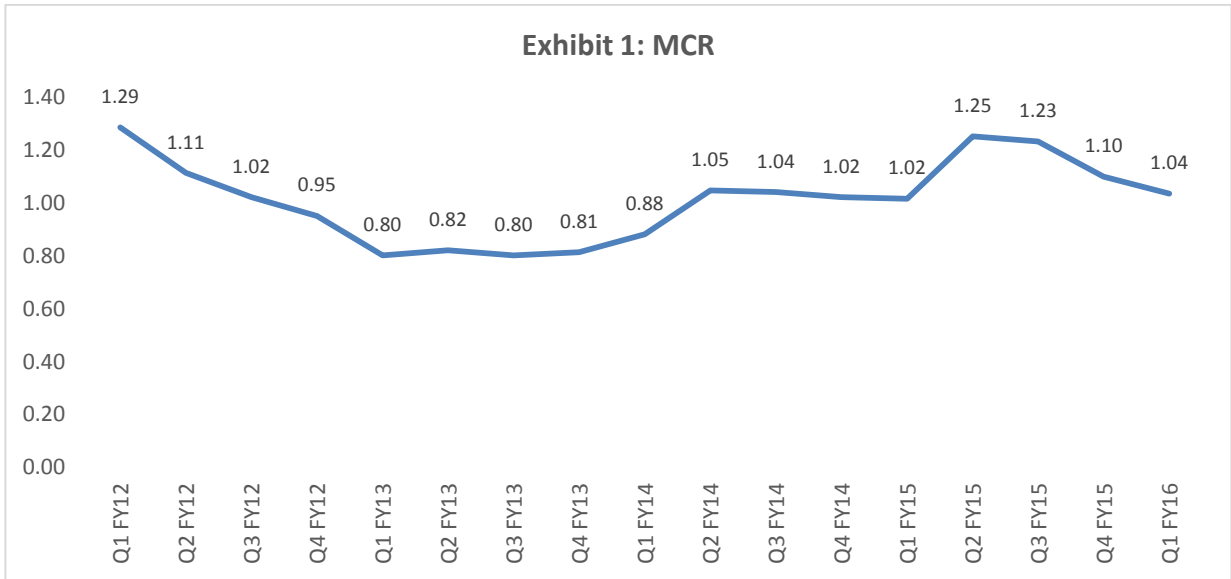
Credit ratings effectively capture the financial health of the rated entities and thereby the prevailing credit quality of the system. Moreover, given the large and diverse set of entities rated by CARE Ratings, the movement in credit ratings assigned can be regarded as being representative of the general business and economic scenario of the country.

Modified Credit Ratio (MCR)

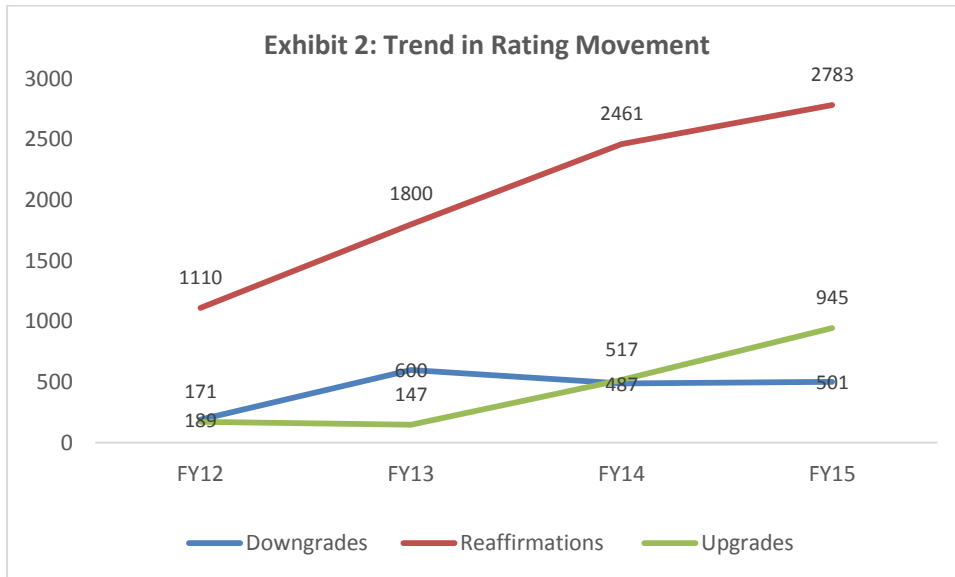
CARE's Modified Credit Ratio (MCR) helps measure mobility in ratings. It is defined as the ratio of (upgrades and reaffirmations) to (downgrades and reaffirmations). An increase in MCR denotes an increase in upgrades vis-à-vis downgrades while a decrease in MCR shows the reverse. In other words, an increase in the MCR implies stable and improving credit quality of the rated entities. An MCR closer to one indicates higher stability in ratings, with larger proportion of reaffirmations.

Although the credit quality of the rated entities continues to be largely stable with the MCR being above 1 since Q2 FY14, there has nevertheless been a moderation in this ratio in the last 2 quarters. The MCR for the first quarter of the current fiscal came in at 1.04, lower than reading of 1.10 in Q4FY15 and significantly lower than the high of 1.25 of Q2FY15 and 1.23 of Q3FY15.

Exhibit 1 below captures the movement in MCR over the last 17 quarters. The ratio has been steady at over unity since the last 8 quarters, indicative of the overall stability in credit quality at the system level



Trends in Rating Movement



An analysis of the trend in rating movement of the entities rated by CARE shows that:

- Upgrades have been outnumbering downgrades in FY14 and FY15, reflecting the improved credit quality prevailing in the system.
- In terms of upgrades, 165 entities saw their ratings upgraded in Q1 FY16 (144 in Q1 FY15 and 25 in Q1 FY14).

- The number of downgrades in Q1 FY16 at 133 was steady as in Q1 FY15.

Industry wise Rating Action

A comparison of the MCR across 33 major sectors for the various years has been given in table 1

- A continued stability and improvement in the credit quality of rated entities has been observed across sectors in Q1 FY16. Barring 8 sectors (out of 33), all the other sectors registered MCR of 1 and above in Q1 FY16.
- The sectors that have recorded an MCR below 1 are hospitality, auto, cement, construction, electricity generation and metals sector. These sectors have witnessed a higher number of downgrades compared to upgrades.
- There has been notable improvement in the credit quality of companies (MCR above 1) in sectors such as computer hardware & electronic products, banks, food products, information and communication, ceramics, rubber and plastic products, sugar, telecom and transportation & storage in Q1 FY16 (when compared with FY15).

Table 1: Industry-wise Movement in MCR

Industry	2011-2012	2012-2013	2013-2014	2014-2015	**Q1 2015-16
Agriculture, forestry and fishing	1.00	0.91	1.18	1.22	1.00
Auto	1.38	0.92	0.97	1.20	0.92
Banks	1.16	0.87	0.80	0.97	1.50
Cement and related products	1.00	0.82	1.03	1.03	0.63
Ceramics	0.94	0.69	0.93	1.32	1.75
Chemicals and chemical products	1.11	0.94	1.04	1.26	
Computer hardware, electronic and optical products	0.83	0.46	1.07	1.27	1.75
Construction	0.93	0.75	0.90	1.13	0.97
Education	0.97	0.79	1.00	1.15	1.15
Electrical Equipment	0.87	0.69	0.93	1.11	1.00
Electricity - Generation	0.98	0.79	0.85	1.22	0.91
Electricity - T & D	0.63	0.80	1.00	1.30	1.20
Fabricated metal products	1.27	0.86	1.08	1.15	0.83
Financial Institution	1.00	0.86	0.92	1.00	1.00
Food and food products	1.07	0.86	1.08	1.15	1.31
Hospitality	0.79	0.78	0.96	0.85	0.87
Information and communication	0.92	0.80	1.03	1.22	1.33
Iron and Steel	0.90	0.79	0.99	1.07	0.95
NBFC	1.00	1.00	1.14	1.20	1.13
NBFI	1.23	1.00	1.09	1.15	1.05
Non ferrous Metals	0.93	0.73	0.97	0.91	0.73
Other Financial companies	1.00	1.08	1.00	0.94	1.00
Other Machinery	0.94	0.73	1.00	1.05	1.13
Other Manufacturing	1.11	0.85	1.04	1.07	1.10
Paper and paper products	1.13	0.80	1.00	1.41	1.12
Pharmaceuticals	0.98	0.75	1.00	1.29	1.00
Real Estate activities	0.79	0.89	0.96	1.05	1.00
Rubber and plastics products	1.05	0.76	1.15	1.17	1.21
Sugar	0.56	0.82	1.13	0.96	1.00
Telecom	1.50	0.39	0.87	1.09	1.20
Textiles	0.97	0.85	1.25	1.34	1.04
Transportation and storage	0.86	0.71	0.94	1.15	1.21
Wholesale and retail trade	1.05	0.87	1.00	1.04	1.01

** While interpreting the industry-wise data in the above table it needs to be kept in mind that while the first four columns (FY12-FY15) pertain to annual data, the last column pertains to quarterly data for Q1FY16. As such, sector-wise MCR may tend to be somewhat skewed due to limited data points.

Contact:

Arun Kumar

Chief General Manager - Ratings

arun.kumar@careratings.com

Kavita Chacko

Economist

kavita.chacko@careratings.com

91-022-61443593

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