Rating Revisions: April-June'14

The changes in the credit ratings of the entities rated by CARE since FY12 has been analysed here to showcase the movement of these ratings over time and thereby draw inferences on the overall credit quality of the system as well as to highlight correlation if any with the underlying economy. We have also looked into the industry wise credit changes to emphasize the industry-wise credit quality.

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. Therefore, **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**.

Given that CARE rates a large and diverse set of entities, the movement of MCR can be regarded as being indicative of the general business and economic environment of the country.

CARE's MCR in the first quarter of the current fiscal, at 1.02, continues to reflect the gradual improvement in credit quality of its rated entities. The ratio has remained fairly in the last 4 quarters after witnessing a sharp and steady deterioration for the 7 quarters between Q2FY12 to Q4FY13, when the ratio moved from 1.12 to 0.81, as downgrades outnumbered upgrades. The ratio however remains below the Q1FY12 level as demand conditions in the economy have moderated since and interest rates have risen.

Exhibit 1: Modified Credit Ratio (Quarterly)

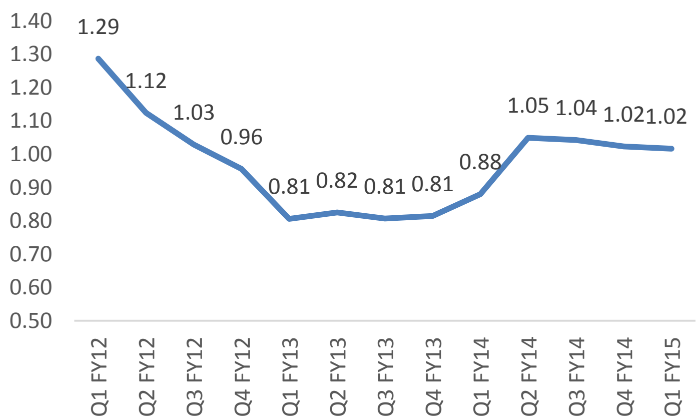
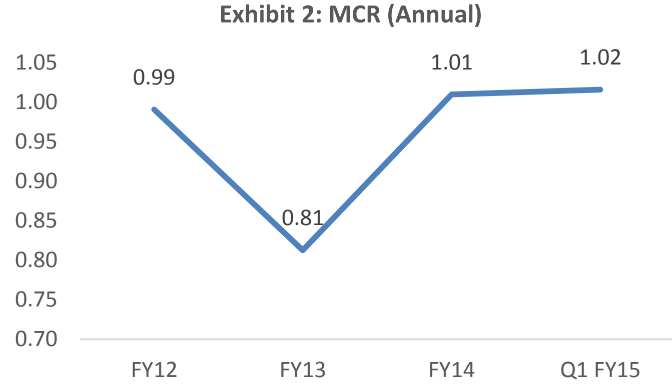
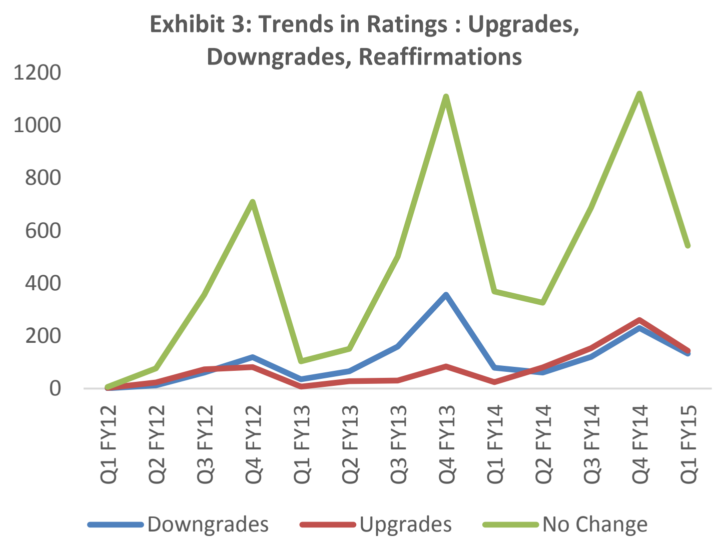


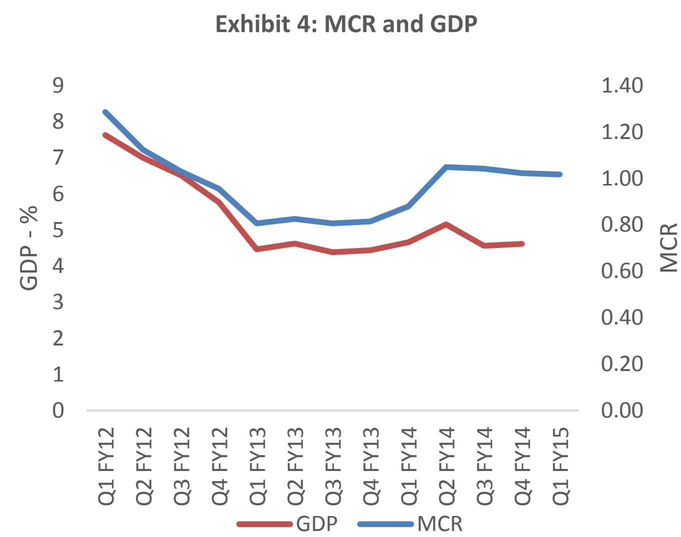
Exhibit 2: MCR (Annual)



*Source: CARE Ratings

The trend in rating movements in CARE rated entities (Exhibit 3) shows that upgrades have been outnumbering downgrades, albeit marginally, since Q2FY14. Also, a higher number of entities have had their ratings being reaffirmed. In Q1 FY15, 144 entities saw their ratings being upgraded, 133 entities had their ratings downgraded and 542 entities had their ratings being reaffirmed. There has been a notable increase in the number of entities who have seen their ratings being upgraded and reaffirmed in Q1FY15 compared to that in Q1FY14. 25 entities were upgraded in Q1 FY14 and 369 entities saw their rating being reaffirmed during the period.





*Source: CARE Ratings

Exhibit 4 highlights the strong correlation (0.81) between the MCR and GDP (FY12 to Q1FY15) . The weak economic conditions prevailing in the domestic economy since the 3 fiscals has pushed down the MCR marginally.

Industry wise Rating Action

A comparison of the industry wise MCR across the various quarters has been given in table 1

Table 1 : Industry-wise Rating Action - Movement in MCR				
Industry	**FY12**	**FY13**	**FY14**	**Q1 FY15**
Agriculture, forestry and fishing	1.0	0.9	1.2	0.9
Auto	1.4	0.9	1.0	1.1
Banks	1.2	0.9	0.8	1.0
Cement and related products	1.0	0.8	1.0	1.0
Ceramics	0.9	0.7	0.9	2.0
Chemicals and chemical products	1.1	0.9	1.0	1.4
Construction	0.9	0.7	0.9	1.0
Education	1.0	0.8	1.0	0.9
Electrical Equipment	0.9	0.7	0.9	1.0
Electricity - Generation	1.0	0.8	0.9	1.1
Electricity - Transmission and distribution	0.6	0.8	1.0	1.0
Fabricated metal products	1.3	0.9	1.1	1.0
Hospitality	0.8	0.8	1.0	0.8
Human health and social work activities	1.1	0.7	1.0	1.7
Information and communication	1.0	0.8	1.0	1.4
Iron and Steel	0.9	0.8	1.0	0.9
NBFC	1.0	1.0	1.1	1.0
NBFI	1.2	1.0	1.1	1.0
Non-ferrous Metals	0.9	0.7	1.0	1.3
Other Machinery	0.9	0.7	1.0	1.4
Other manufacturing	1.1	0.9	1.0	1.0
Paper and paper products	1.2	0.8	1.0	1.1
Real Estate activities	0.8	0.9	1.0	1.0
Telecom	1.0	0.8	1.2	1.3
Textiles	1.0	0.8	1.2	1.0
Transportation and storage	0.9	0.7	0.9	1.1
Wholesale and retail trade	1.1	0.9	1.0	0.9

Among the larger sectors, in Q1 FY15, textiles, iron & steel, hospitality, education and agriculture have seen a noticeable moderation in their MCR from that in the previous year. On the other hand, sectors such as auto, chemicals, construction, electricity, information & communication, paper & paper products and telecom have displayed encouraging increase in MCR.

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