Rating Revisions: July- September'14

The credit ratings of the entities rated by CARE since FY12 has been analysed here to showcase the movement (upgrades, downgrades and reaffirmations) of these ratings over time and thereby draw inferences on the overall credit quality prevailing in the system as well as to highlight correlation if any with the underlying economy. The industry wise rating changes too have been included here to highlight the movement in 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 registered a significant improvement in the second quarter of the ongoing fiscal. At 1.25, the MCR for Q2FY15 came it at a 3 year (or 12 quarter) high. The latest reading of the MCR reflects the continued improvement in the credit quality of the rated entities. The ratio has been seen to be on the path of steady progress since the last 5 quarters (ratio has been over 1).

Exhibit 1: MCR (Quarterly)

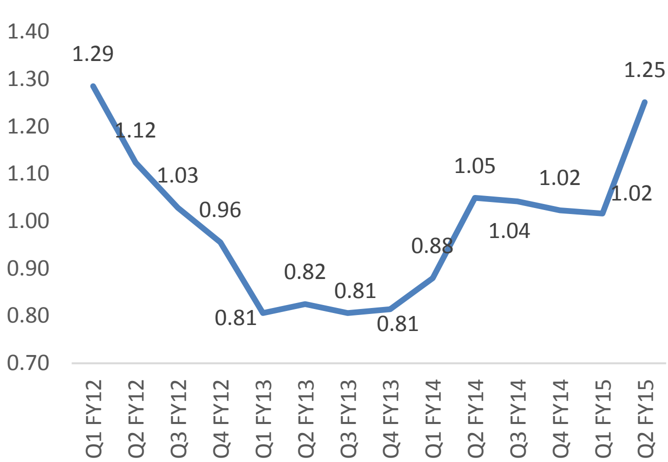
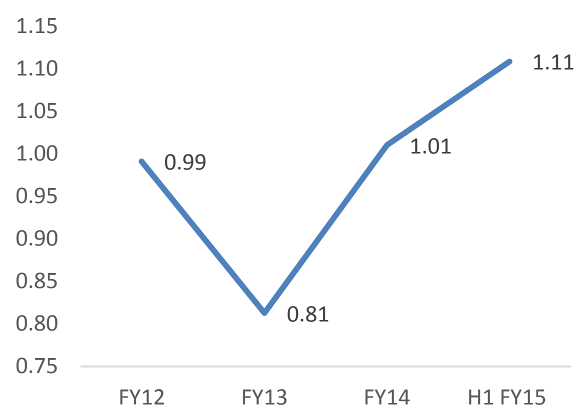


Exhibit 2: MCR (Annual)



*Source: CARE Ratings

The trend in rating movements in CARE rated entities (Exhibit 3) shows that upgrades have been outnumbering downgrades, since Q2 FY14. Also, a higher number of entities have had their ratings being reaffirmed. In Q2 FY15, 170 entities saw their ratings being upgraded, 61 entities had their ratings downgraded and 372 entities had their ratings being reaffirmed. **There has been a rather sharp increase in the number of upgrades in Q2 FY15**. A year on year comparison shows that the number of entities who have seen their ratings been upgraded has doubled. In Q2 FY14, 80 entities recorded a rating upgrade, 61 entities a rating downgrade and 326 entities saw their ratings being reaffirmed.

Exhibit 3 : Trend in Upgrades, Downgrades and Reaffirmations

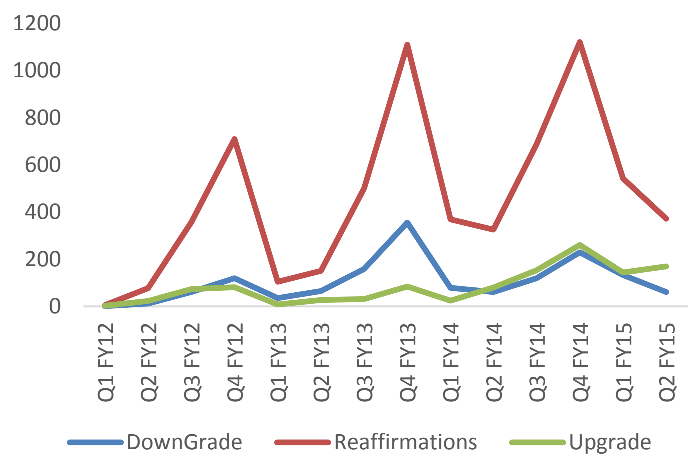


Exhibit 4: MCR and GDP

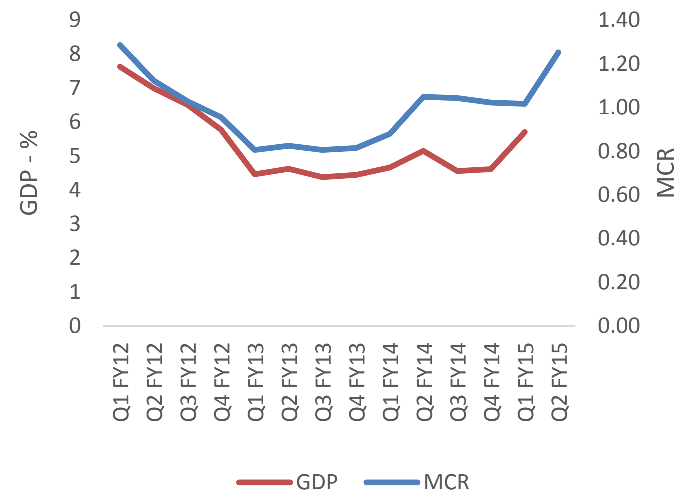


Exhibit 4 highlights the strong correlation (0.82) between the MCR and GDP (FY12 to Q2FY15). The weakness in the MCR in the last 3 fiscals can be attributed to the weakness in the country's economy.

Industry wise Rating Action

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

Table 1: Industry-wise Rating Action - Movement in MCR

	FY12	FY13	FY14	H1 FY15
Administrative and support service activities	0.90	1.00	1.14	1.33
Agriculture, forestry and fishing	1.00	0.91	1.18	1.36
Auto	1.42	0.92	0.97	1.17
Banks	1.15	0.88	0.80	0.87
Cement and related products	1.00	0.82	1.03	1.00
Ceramics	0.94	0.69	0.93	2.67
Chemicals and chemical products	1.12	0.93	1.04	1.38
Coal Mining	1.00	0.56	0.71	1.00
Coke and refined petroleum products	1.43	0.69	1.10	1.33
Computer hardware, electronic and optical products	0.83	0.46	1.07	0.86
Construction	0.93	0.75	0.90	1.07
Crude and Natural Gas extraction	0.67	0.83	0.75	1.00
Diversified	1.00	0.56	0.73	1.00
Education	0.97	0.79	1.00	1.03
Electrical Equipment	0.87	0.70	0.93	0.95
Electricity - Generation	0.98	0.79	0.85	1.12
Electricity - Transmission and distribution	0.60	0.78	1.00	1.00
Financial Institution	1.00	0.86	0.92	1.00
Food and food products	1.06	0.86	1.08	1.14
Hospitality	0.78	0.76	0.96	0.83
Information and communication	0.96	0.83	1.03	1.56
Information Technology & ITes	0.00	0.75	1.00	1.00
Iron and Steel	0.90	0.80	0.99	0.95
Manufacture of apparel	1.25	0.71	0.94	1.30
Mineral Mining	0.70	0.91	1.25	1.14
NBFC	1.00	1.00	1.14	1.42
NBFI	1.22	1.00	1.10	1.14
Non ferrous Metals	0.94	0.71	0.97	1.11
Non Metallic minerals	0.75	1.00	0.40	0.67
Other Financial companies	1.00	1.07	1.00	0.88
Paper and paper products	1.18	0.79	1.00	1.45
Pharmaceuticals	0.98	0.76	1.01	1.29
Real Estate activities	0.80	0.86	0.96	1.02
Sugar	0.60	0.83	1.13	1.14
Support activities for mining	1.50	1.00	0.67	1.00
Telecom	1.50	0.42	0.87	1.18
Textiles	0.99	0.85	1.24	1.31
Transportation and storage	0.86	0.72	0.94	1.07
Water supply; sewerage, waste management etc.	1.18	0.63	1.36	1.13
Wholesale and retail trade	1.06	0.87	1.00	0.94

Among the larger sectors, in FY15 (Q1 & Q2), chemicals, textiles, pharmaceuticals, telecom, auto, electricity generation and construction have registered a favourable increase in their MCR. Hospitality, iron & steel and wholesale & retail trade segments have witnessed a moderation in their MCR.

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