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CARE Debt index improves by 33 bps in April on better asset quality

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Reflecting an improvement in the asset quality profile of rated entities, the reading on the CARE Debt Quality Index (CDQI) inched up sequentially by 33 basis points to 88.94 in April 2021 from 89.51 in March 2021.

CDQI denotes the quality of debt that can be interpreted over time and juxtaposed with other developments in the financial sector. The CDQI captures, on a scale of 100 (index value for the base year FY12), whether the quality of debt is improving or declining.

Intuitively an upward movement indicates improvement in quality of debt benchmarked against the base year, CARE Ratings said in a statement.

The improvement in April was supported by enhancements in higher rated debt instruments. As it is contemporary with minimum time lags, the health of the debt and credit markets is encapsulated on a near-real-time basis.

The dataset comprises 1,613 companies from CARE Ratings' portfolio of 2,980 companies as of March 2012, rating agency said.

Currently, the volume of debt of the sample companies stands at Rs. 44.7 trillion in April 2021.

The dataset is revisited at regular intervals. It is replaced suitably with a new set of companies with a similar rating and an approximate volume of outstanding debt rated in case if an entity ceases to have a rating coverage.

The CDQI index rose to 89.51 in March 2021, 0.70 points more than March 2020 with a notable uptick witnessed in April 2020 on account of enhancements in rated debt of higher rated entities.

In June 2020 and December 2020, the gain in the CDQI index was supported by few ratings moving from default grade to non-default grade on improvement in the liquidity of these companies. During the last quarter of FY21, the index was largely range-bound, CARE said.