January 10, 2017

Credit Quality: 9M FY17

The movement in credit rating of entities rated by CARE Ratings, which highlights the state of credit quality, indicates that there has been a moderation in the credit quality of rated entities in the ongoing fiscal. The Modified Credit Ratio (MCR) of the rated entities in the first 9 months of the current fiscal has touched a 2 year low. However, the credit quality of the rated entities exhibits sustained stability since mid 2013-14.

For the period Apr-Dec'2016 (9MFY17), while the number of rating reaffirmations has seen an increase (18% increase taking its share to 73%), indicative of the high degree of stability in credit quality of the rated entities, the rating upgrades have moderated and the rating downgrades have increased, reflective of the pressures on credit quality faced by certain segments.

The changes or movement in credit ratings of the various entities reflect the improvements, stability and weakness in the financial health of the entities. These changes are captured in the Modified Credit Ratio (MCR) and the movement of the MCR is reflective of the changes in credit quality in the system.

The changes in credit quality as measured by MCR for 6 years has been analyzed and summarized here. Given the large quantum and diverse set of entities rated by CARE Ratings, the cumulative findings can be treated as being representative of the overall system.

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 an improving credit quality of the rated entities. An MCR closer to one indicates higher stability in ratings, with larger proportion of reaffirmations.

Contact:

T. N. Arun Kumar
Executive Director
arun.kumar@careratings.com
91-22-67543412

Mitul Budhbhatti
Dy General Manager
mitul.budhbhatti@careratings.com
91-22-67543547

Kavita Chacko
Economist
kavita.chacko@careratings.com
91-022-67543687

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-022-6754 3515

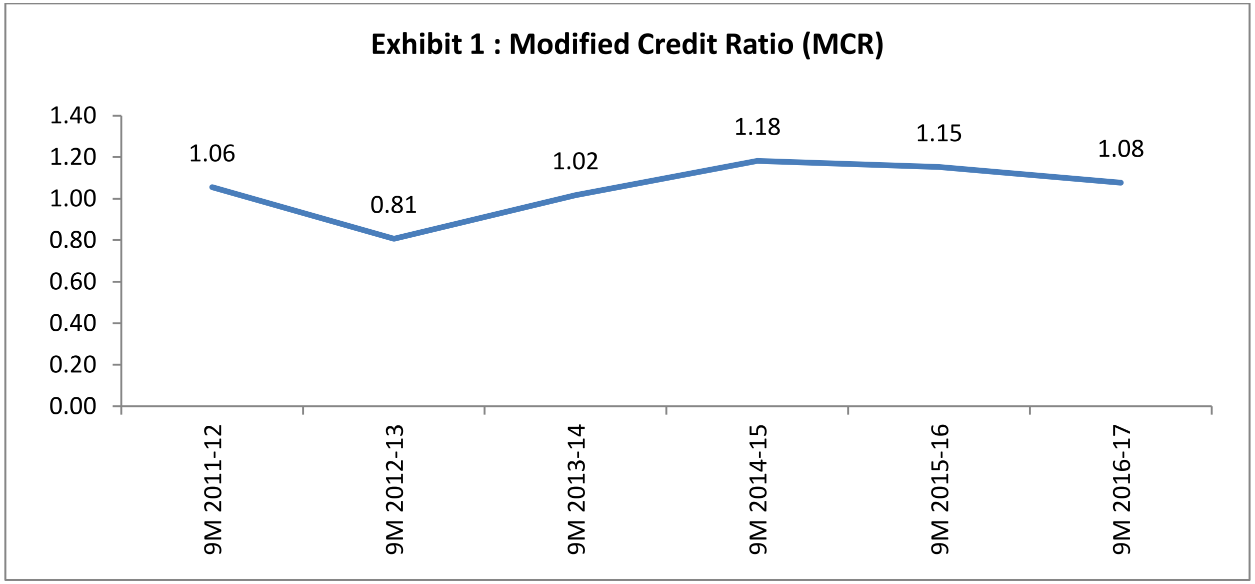
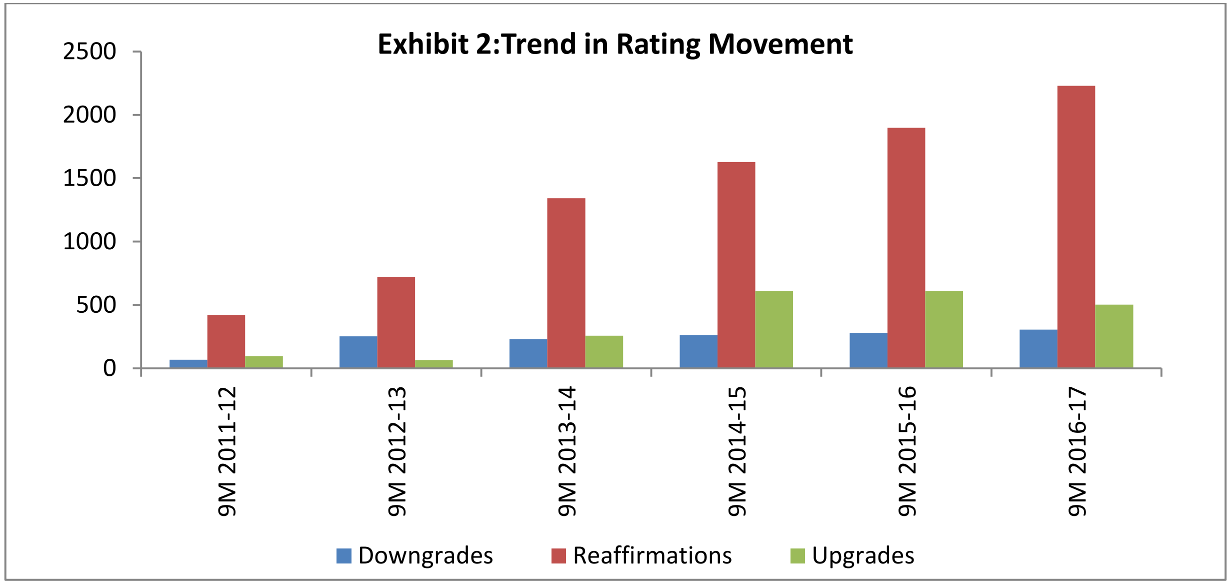


Exhibit 1 above captures the MCR for the first 9 months of the fiscal year (9M) for the last 6 years. Although the ratio continues to be above unity, indicating higher number of upgrades than downgrades, there has been a moderation in the ratio this fiscal year to 1.08 compared with the corresponding period in the 9M FY16 (1.15) and 9M FY15 (1.18).

Exhibit 2 below showcases the rating actions for the first 9 months of the fiscal and the trend in the same for the 6 year period FY12-17. An analysis of the trend in the rating movement of the entities rated by CARE Ratings shows that:

- The number of reaffirmations has been steadily increasing in the last 6 years with 9MFY17 having the highest number of reaffirmations in absolute terms. About 73% of the rating surveillance exercises undertaken by CARE resulted in reaffirmation of ratings during 9MFY17, higher than the 68% and 65% of surveillance cases reaffirmed in corresponding period of the previous 2 financial years, indicative of the improved stability in credit quality of the rated entities.
- There has been a moderation in the number of upgrades in 9MFY17; 17% lower than that in the previous 2 fiscals. About 17% of the surveillance cases were upgrades during 9MFY17 compared with the 22% and 24% in the corresponding period in the previous 2 years.

- Downgrades have been accounting for nearly 10% of the surveillance cases since the last 3 years.



Industry wise ratings changes

The MCR across key industries in the first 9 months of the fiscal year since 2011-12 is highlighted in Table 1 below.

Table 1: Industry-wise MCR

Industry	9MFY12	9MFY13	9MFY14	9MFY15	9MFY16	9MFY17
Auto	1.88	1.00	1.00	1.20	1.11	1.09
Banks	1.50	0.85	0.90	0.97	0.84	0.95
Cement and related products	1.00	0.88	1.11	1.00	0.92	1.53
Chemicals and chemical products	1.29	0.84	1.13	1.33	1.11	1.16
Construction	0.91	0.85	0.94	1.18	1.10	1.04
Education	1.00	0.50	1.00	1.29	1.22	1.02
Electrical Equipment	0.95	0.78	0.95	1.08	1.09	1.31
Electricity - Generation	1.13	0.88	0.92	1.23	1.14	1.05
Electricity - Transmission and distribution	0.40	1.00	0.94	1.00	1.13	1.00
Financial Institutions, NBFCs and NBFI	1.32	1.00	1.12	1.10	1.09	1.09
Food and food products	1.18	0.86	1.03	1.27	1.41	1.07
Hospitality	0.82	0.67	0.86	0.88	0.93	1.35
Iron and Steel	0.87	0.77	0.98	1.00	1.04	0.97
Manufacture of apparel	1.00	1.00	0.92	1.43	1.27	0.94
Non ferrous Metals	0.67	1.00	0.94	1.06	0.94	0.97
Other manufacturing	1.22	0.86	1.02	1.11	1.30	1.08
Paper and paper products	1.20	0.91	1.05	1.68	1.25	1.24
Pharmaceuticals	0.95	0.57	1.12	1.38	1.33	0.98
Real Estate activities	0.71	0.72	0.90	1.06	1.20	1.00
Rubber and plastics Products	1.00	0.94	1.14	1.41	1.45	1.44
Sugar	0.33	0.75	1.00	1.00	1.00	1.27
Textiles	1.21	0.76	1.19	1.46	1.17	1.17
Transportation and storage	0.77	0.58	0.87	1.16	1.28	0.85
Wholesale and retail trade	1.42	0.85	1.03	1.08	1.07	1.12

The segments that witnessed an improvement in credit quality (higher number of upgrades and reaffirmations) in 9MFY17 compared to previous periods include sectors such as cement, electrical equipment, hospitality, non-banking financial institutions, rubber & plastic products, sugar and wholesale and retail trade The factors that have aided upgrades across sectors can be broadly classified as being on account of improvements in liquidity position, improving operating performance, healthy order book, improvements in execution & timely completion of projects, favorable demand prospects, improvements in profitability, and improvements in capital structure and debt coverage indicators.

Higher number of downgrades were recorded largely in sector such as auto, banks, construction, education, iron & steel, electricity generation, food & food products, manufacture of apparels, non-ferrous metals, pharmaceuticals, real estate and transport & storage. Decline in sales & scale of operations, cancellation of projects, moderation in profitability margins, stressed liquidity position, operating losses and stretched working capital position were some of the factors that have prompted downgrades in these sectors.

CORPORATE OFFICE:
CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457 I E-mail: care@careratings.com I Website: www.careratings.com