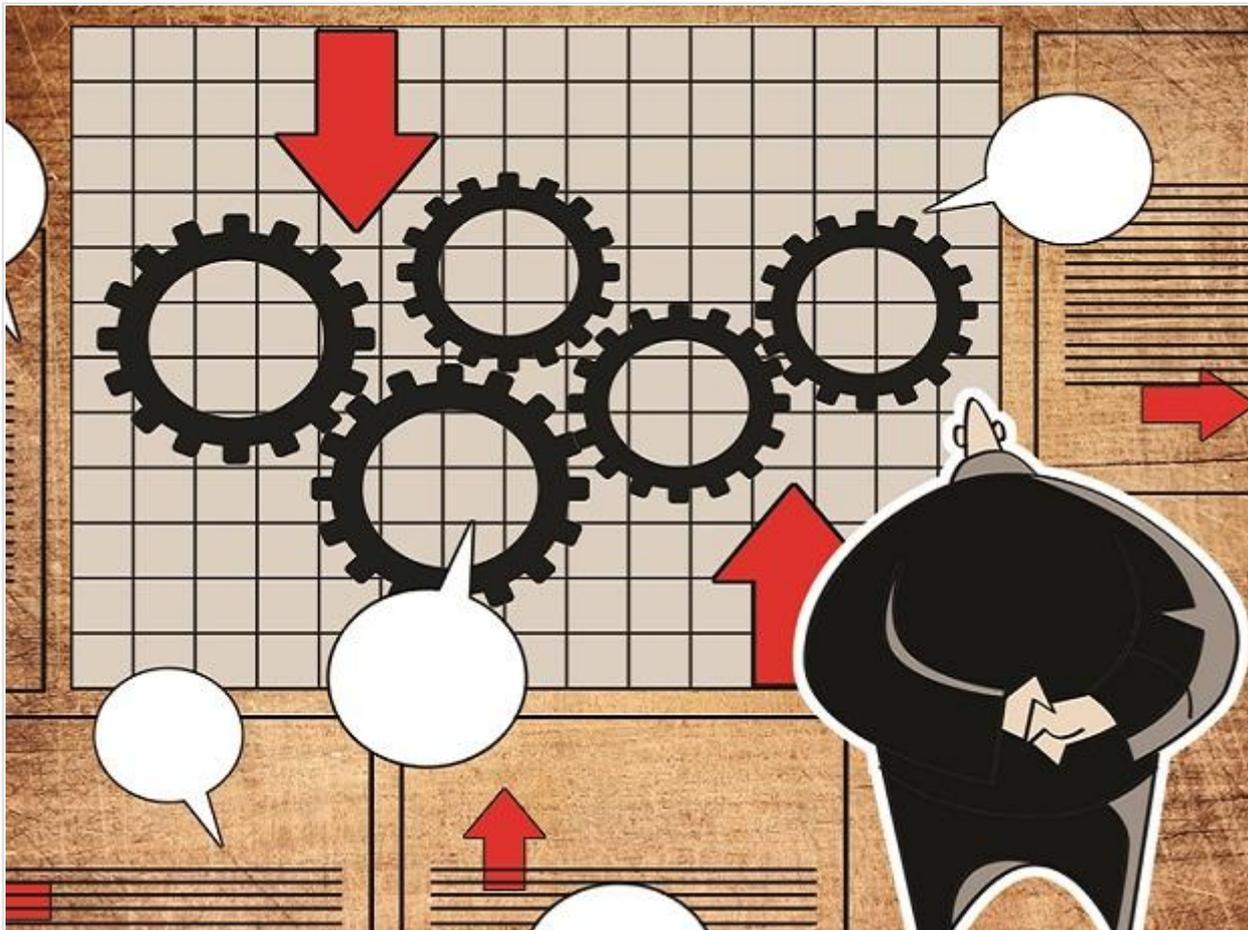




Rated firms' credit quality improves in Q1, along with biz sentiment: CARE

Manufacturing, Infra firms see uplift; NBFCs face hit

Abhijit Lele | Mumbai July 05, 2021 Last Updated at 18:15 IST



Building on economic recovery in late FY21, the credit quality of rated firms improved in the June 2021 quarter. The reading on modified credit ratio (MCR) was 1.04, indicating an increase in

Illustration: Binay Sinha

proportion of upgrades vis-à-vis downgrades.

Rating agency CARE said the MCR is on an improving trend, reflecting improvement in business sentiment after going to a low of 0.88 in Q1 FY21, which was the lowest level that it has touched since Q4 FY13.

The economic recovery to be slow paced (in FY22) and thus estimates a stable MCR, closer to one for the coming quarters. An MCR closer to one indicates higher stability in the ratings, with a larger proportion of reaffirmations. The MCR is calculated on a four-quarter rolling basis.

The recovery in this quarter would have been much better, had it not been hit by the second wave of the pandemic. Though it pushed recovery a bit farther, it did not create large-scale disruption in operations of most sectors, like in the first wave, CARE said.

With lockdowns being localised and less severe in the second wave, most sectors indeed saw a recovery, albeit slow paced. Also, the slew of measures announced by the government and the pick-up in the

vaccination drive are expected to pave the way towards an economic revival.

SEQUENTIAL MOVEMENT

Modified credit ratio



Source: CARE Ratings

CARE said MCR for the Banking and financial services (BFSI) was low at 0.95 for 12 months ended June 30, 2021, with the highest proportion of downgrades than upgrades. The sector faced asset quality issues with deterioration in the credit profile of borrower entities.

Further, the Asset Liability profile of NBFCs was affected as they faced a double whammy with the assets being restructured on RBI directives on moratorium and loan restructuring with no respite on the liability side.

MCR for Infrastructure, Manufacturing and Services improved from sub-unity to marginally above one, indicating an improvement in the credit quality in these sectors and consequent higher upgrades than downgrades.