Print This Pa

Corporate rating upgrades may continue going forward: CARE

CARE Ratings had come out with a report showing a sharp increase in the number of corporate rating upgrades for Q2FY15 versus Q2FY14 and DR Dogra, MD & CEO of Care Ratings expects this trend to continue on back of positive sentiment, and some positive steps taken by the new government. However, he adds that things on the ground haven't improved that much.

For every downgrade there have been 1.25 upgrades in Q2FY15, he adds in an interview to CNBC-TV18's Ekta Batra and Anuj Singhal.

According to him the sectors that have seen the maximum upgrades have been the textiles, chemicals and pharma and the downgrades have been more in the hospitality, iron, steel, retail trade segments.

Commenting on Canara Bank paring its stake in the company from 15 to around 12 percent in the last one year, he says the bank has been a shareholder for a very long time of over 20 years and it is natural for any investor to liquidated some assets from their investments..

However, he says Canara Bank still remains the second largest shareholder after IDBI Bank which holds around 15% stake. This shows that shareholders still see value in the company, says Dogra.

According to the report ratings of 170 entities have been upgraded, of 61 entities have been downgraded and that of 372 entities have been re-affirmed.

Also read: Credit ratio shows early signs of recovery: CRISIL

Below is the transcript of DR Dogra's interview with Ekta Batra and Anuj Singhal on CNBC-TV18.

Ekta: Can you then safely say that Q2 FY15 has seen maybe an improvement in the credit ratings of most of the companies or maybe the asset quality or the debt servicing ability of most of the companies in this quarter?

A: The credit quality has been seen to improve during the Q2 of this year. If you look at our modified credit ratio which is ratio of upgrades plus retentions to downgrade plus retentions which are in hovering below 1 for quite long time and started going above 1 somewhere in Q2 of FY14 and continuously it has taken an uptrend.

It was 1.05 in Q2 FY14 which went up to 1.04 in Q3, again went down to 1.02 in Q4 of FY14 and have been stable in Q1 of FY14 at 1.02 but surprisingly in Q2 FY15 it has gone to 1.25. That means for every one downgrade there was 1.25 of upgrades. That shows the CAD quality is in upturn.

Anuj: What sectors have seen the highest upgrades and what sectors have seen the highest downgrades?

A: We have seen that most of the upgrades have been in the chemicals, textiles, pharma, telecom, auto sectors whereas the downgrades have been more in the hospitality, iron, steel, retail trade segments.

Reema: Is it fair to assume that this trend will maybe continue or do you think that maybe Q2 FY15 was an aberration or is it a start of a new cycle?

A: I think sentiment is positive. Things have improved to that extent but it may not be only because of more number of upgrades but because of lower number of downgrades. However, after all modified credit ratio is a ratio. So, if numerator doesn't go up but if denominator goes down the ratio increases that is one thing which we have to keep in mind.

However, if you look at today's paper, one report says that number of revived projects have increased during this quarter, that is one. Second even the IMF forecast for our gross domestic product (GDP) is positive, and this government is also taking many steps to revive - there are some environmental concerns which are being addressed, mining issues are at least now out of the court jurisidiction and can now government can start acting that.

That shows the ability of this government to take the movement forward and all of us who are just waiting for GDP to pick up. I think we expect positives in the quarters to come.

Ekta: We do understand that one of the shareholders which is Canara Bank has been consistently paring down stake. Can you give us a sense of how much they have pared down their stake to? Have you had any interactions with them in terms of whether they would look to sell-off a bulk amount of stake that they own? They currently hold around 11-12 percent if I am not mistaken.

A: They have come down from around 15 percent to around 12 percent during last one year. However, let us be fair to our shareholders, they have been with this company right from 1993, had very long and patience of over 20 years now with this company. Now, when the Rs 8 crore they put in 1993 is more than Rs 4500 crore now, I think there is some time for any investor to make some money.

However, though they have sold some stake they still remain the second largest shareholder of the company and own around 12 percent of the company. It is not that they have completely gone out but there are pressures on each one, they need to liquidate some of the assets where they think there is some money to make in those investments. I think it was a step in that direction and they still remain second largest shareholder and IDBI is the largest one at 15 percent share.

So, it shows that the shareholders see value in this company and whenever you need money you will have to liquidate some of the assets which you have and that is what some of the shareholders have done in the past.