Negative to stable

India's rating upgrade is widely seen as a reflection of the government's efforts to revive the economy

By Shutapa Paul

International credit rating agencies have been trooping into the office of Anil Swarup, the additional secretary heading the Project Monitoring Group, or PMG. They wanted to know firsthand the status of the pending infrastructure projects. The PMG had been trying to expedite project clearance and had given the nod to projects worth ₹6.24 lakh crore. It seems the agencies are impressed.

International perception of the Narendra Modi-led NDA government has also been favourable. The recent credit upgrade awarded to India by global ratings agency Standard & Poor's (S&P) came right in time for the prime minister's crucial trip to the US. S&P upgraded its outlook from 'negative' to 'stable'. "What S&P has recognised has already been acknowledged by the global investors who have been pouring money into the Indian debt and stock markets for the last several months," said Rana Kapoor, managing director and CEO of Yes Bank and president of ASSOCHAM.

The upgrade is widely seen as a reflection of the government's efforts to revive the economy. "This outlook revision or upgrade is an endorsement bestowed upon the four-month-old Modi regime; an acknowledgement of the efforts invested in reviving the sluggish economy and bringing back foreign investments to the country," said Manish Hathiramani, proprietary trader and technical analyst at Deen Dayal Investments.

A rating upgrade by a reputed agency more often than not rejuvenates the stock markets. On September 26, when S&P announced its revision, both the Sensex and the Nifty, which had been languishing at a six-week low, made a quick turnaround. Even the rupee strengthened against the dollar.

As India urges the world to once again look at it as an investment destination, the upgrade reinstates the country's reputation and establishes the economy's sound fundamentals.

"A change in outlook is positive for companies borrowing in international markets. They are able to borrow at better rates, which helps in lowering costs," said D.R. Dogra, managing director and CEO, Care Ratings.

Many factors contributed to the upgrade—a majority government at the Centre, improvement in industrial and GDP growth, narrowing current account deficit and manageable inflation. "The government has brought in some important policy

changes such as labour reforms and FDI in defence and railway equipment that have been viewed positively. The prime minister is leading from the front in getting foreigners to invest in the country. All this has helped to change the perception of India," said Dogra.

The Reserve Bank of India, however, has remained unimpressed by the upgrade and decided to hold interest rates in its recent monetary policy till inflation abates to a satisfactory level. Still technical analysts discern a strong sense of optimism in the markets, which could work to the advantage of the retail investor. "Those borrowing from global markets should scout for funds which should be better priced, albeit marginally as we have to see a rating change to see a significant decline in borrowing costs for firms," said Dogra.

Foreign investors, who had been waiting, are likely to gradually enter the markets, as they will see how economic indicators pan out in the course of the year. "I think the NSE index will eventually move closer to 9,000 in the medium to long term," said Hathiramani. "This move would be solid but interspersed with bouts of healthy corrections in the prices of quality sectors and stocks. As a chartist, I would summarise this situation with the phrase: buy this market on all falls." ●