

CARE Ratings Debt Quality Index (CDQI) – October 2020

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CARE Ratings Debt Quality Index (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. 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 1,614 companies from CARE's portfolio of 2,980 companies as of March 2012. The dataset is revisited at regular intervals and 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. Currently, the volume of debt of the sample companies stands at Rs. 42.25 lakh crore in October 2020.

Table 1: Movement in CDQI

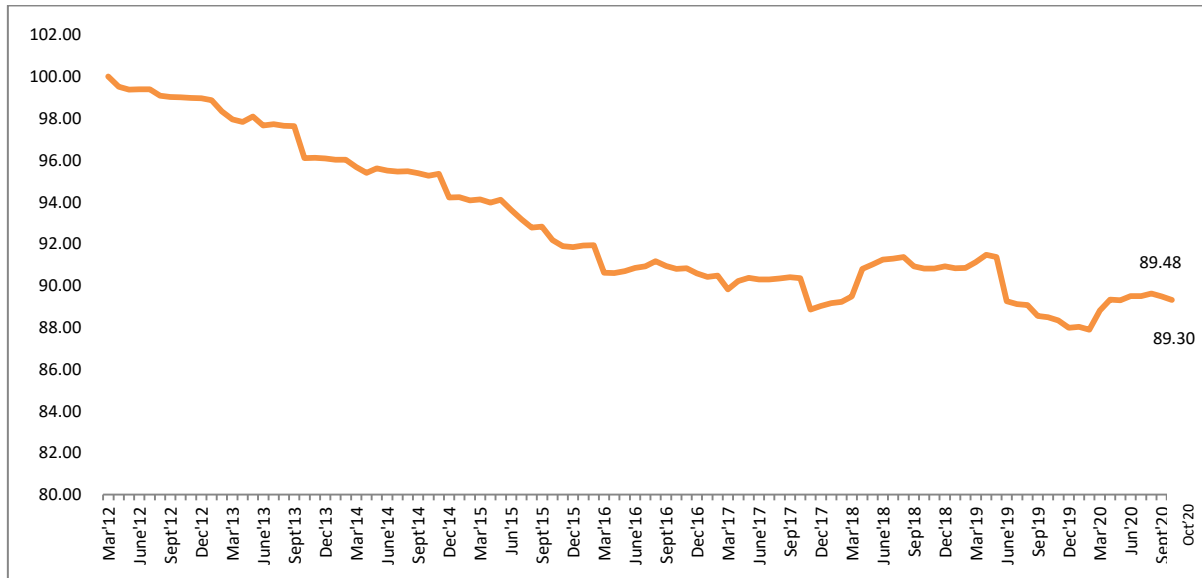
Month	CDQI - Index	Change
Apr-19	91.48	+0.38
May-19	91.37	-0.11
Jun-19	89.25	-2.12
Jul-19	89.11	-0.16
Aug-19	89.07	-0.04
Sep-19	88.54	-0.54
Oct-19	88.49	-0.05
Nov-19	88.33	-0.16
Dec-19	87.98	-0.36
Jan-20	88.02	0.04
Feb-20	87.89	-0.13
Mar-20	88.81	+0.92
Apr-20	89.32	+0.51
May-20	89.30	-0.02
Jun-20	89.50	+0.20
Jul-20	89.50	0.00
Aug-20	89.62	+0.12
Sep-20	89.48	-0.14
Oct-20	89.30	-0.18

Source: CARE Ratings' calculations

During FY20, the CDQI declined by 2.31 points from 91.12 for March 2019 to 88.81 in March 2020, indicating a moderation in the credit quality of the rated entities. In fact, the index had fallen in 9 out of 12 months in FY20 mainly on account of downgrade in ratings owing to

stress in the liquidity position of NBFCs and HFCs making it difficult for entities to raise finance in a timely manner as also delay in monetisation plans. The weights used for the computation of the index are derived from the idealised default rates calculated on a periodic basis. The CDQI for the period April 2020 to September 2020 has been recast to show the indicative trend of quality of debt based on the revised weights. The index has seen a notable increase in April 2020 on account of enhancements in rated debt of higher rated entities. Since then, the index has been range bound. The marginal decline of 0.18 points in October 2020 can be ascribed to downgrades triggered by the pandemic-led liquidity stress in certain rated entities.

Exhibit 1: Movement in CDQI Index



For detailed methodology see: <http://www.careratings.com/pdf/Banner/CDQI%20PR%20&%20Report%20%20for%20website.pdf>