CARE Ratings Debt Quality Index (CDQI) - September 2020

Contact:
Milind A. Gadkari
Senior Director
milind.gadkari@careratings.com
91-22-6754 3466

Smita Rajpurkar
Associate Director
smita.rajpurkar@careratings.com
+91-22-6837 4416

Dr. Rucha Ranadive
Economist
rucha.ranadive@careratings.com
+91-22-6837 4406

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

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 1,613 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. 42.30 lakh crore in September 2020.
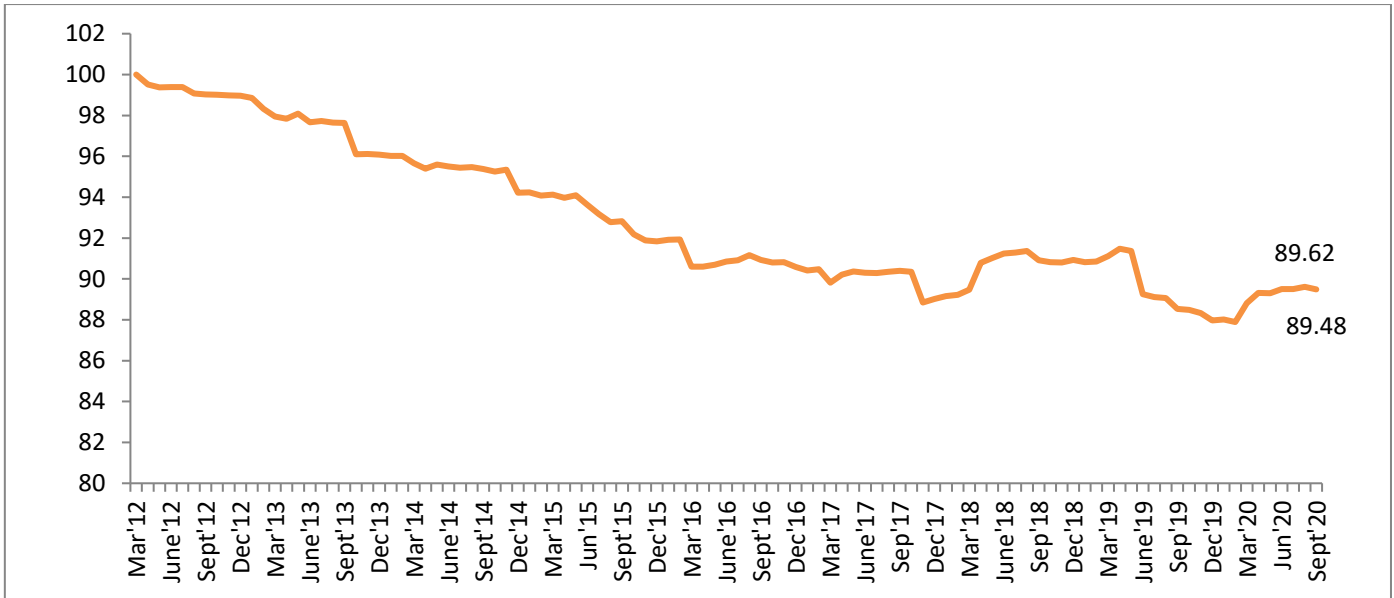
Table 1: Movement in CDQI

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

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 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 delaying 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 high rated entities. Since then, the index has been range bound.

Exhibit 1: Movement in CDQI Index

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