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Movement of CARE Ratings' Industry Confidence Index (CICI) in Q1-FY21

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What is CICI?

Care Ratings' Industry Confidence Index (CICI) is a flagship product developed by the Industry Research team of CARE Ratings, with an intention to gauge the level of confidence across various industries in a particular period. This index is inputted with data from 47 industries ranging across sectors such as manufacturing, services, infrastructure, commodities, etc.

The frequency of calculating CICI index values are once at the end of every quarter, on availability of financial results of every industry. Such quarterly financial results are compared on a YoY basis for computing change in scores used in the index.

For this purpose 6 distinct parameters have been shortlisted for computing the index scores. These 6 parameters are grouped under three major heads: financial performance, credit worthiness and expectation. The 'financial performance' includes objective scores based on financial results and industry dynamics in a particular quarter. The 'credit worthiness' aspect of an industry is measured using the Modified Credit Ratio (MCR) computed for all companies in an industry that are rated by CARE Ratings in the said quarter, while the 'expectation' includes an objective score for outlook of near future.

Parameters used for scoring CICI:-

I. Financial performance:

- Revenue growth
- Operating profit margin
- Pricing power
- Interest coverage

II. Credit worthiness:

- CARE Ratings' Modified Credit Ratio (MCR)

III. Expectation:

- Outlook for near future

Why have these parameters been chosen?

1. Revenue growth signifies how the industry has fared in terms of improvement, decline or staying stable.
2. Operating margin is reflective of how the companies in a particular industry have fared at the operational level and throws lights on efficiency and cost control.

3. Pricing power is crucial especially during downturns in business cycles and hence adds to the confidence level of an industry. For computing this parameter, Wholesale Price Index, Consumer Price Index or any relevant industry pricing benchmarks have been used.
4. Interest coverage ratio is reflective of debt servicing ability and improvement or decline in finance costs for the industry.
5. MCR tells us whether various players in the industry have been downgraded or upgraded or maintained the same credit rating. A high MCR implies more upgrades in an industry and hence gives confidence about the credit worthiness of players in the industry.
6. Outlook for an industry is given after considering various global and domestic factors which could have a bearing on the industry's growth performance for the near future. The factors considered for giving an outlook include, but is not limited to, currency movements, demand - supply dynamics, raw material prices, global and domestic policy changes, capacity addition and utilization, competitive intensity, trade movement, etc. Outlook is the only subjective element among all parameters used in calculation of scores for this index.

Methodology

The 'net response method' is used here where the internal Survey is with analysts tracking these 47 industries provide answers. The analysts post their views on how their sector looks like on the chosen parameters. The response is 'improved', 'worsened' or 'remained same' based on predefined criteria. The shares of responses under each parameter are then tabled for the three confidence levels. The Index is then calculated as follows:

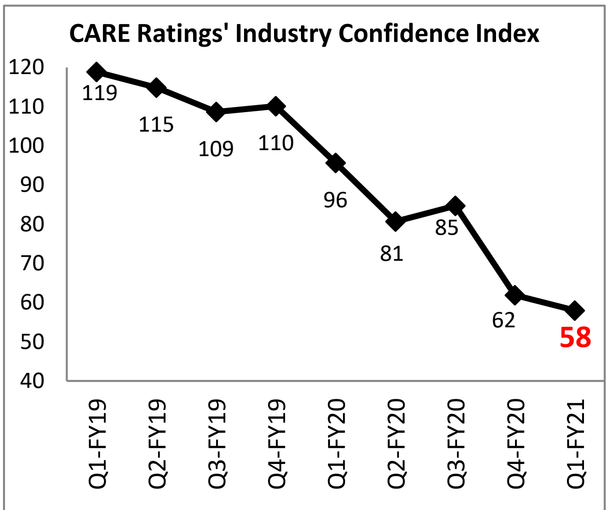
Step 1: Net Responses for each parameter = Share of 'improved' – Share of 'worsened'
Step 2: Confidence Index = 100 + Average of Net responses

Therefore, in this Survey where 6 variables are examined, and a net response is calculated for each one of these variables and the Confidence Index would be 100+ (average net responses for the six variables). Theoretically it can range from 0 (all variables are worsening) to 200 (all variables are improving)

After analyzing the industry scenario, a response for each parameter is given in the form of 'improved', 'remained same' or worsened'. Post which, the final score for the index for a particular quarter is calculated after considering inputs from all 47 industries. This final score would range between 0 and 200, where any score close to 0 signifies that all variables are worsening, while any score close to 200 means all variables are improving in the said quarter.

This report is an update on the index movement in Q1-FY21.

How has the index performed in Q1-FY21 ?



Source: CARE Ratings

As expected, the index score further deteriorated in Q1-FY21, due to the massive pandemic that started globally and gradually spread in India since mid-March 2020. To curtail the further spread of infection, the central government imposed nation-wide lockdowns which continued for most parts of April, May and June 2020. The CICI fell to 58, the lowest score in past 9 quarters.

While analyzing index values for past quarters, in FY19, the value though fell in initial 3 quarters but gained momentum in the last quarter of the year to stay within the range of 109 to 120. However, FY20 came a year which witnessed slowdown across various industries, with initial signs of decelerating consumer demand noticed for products of the FMCG and automobiles sector, among others. Initial 2 quarters of FY20 witnessed a sharp fall in index value, which improved marginally in Q3-FY20, but fell drastically in the successive quarter of Q4-FY20. FY21 started with the gradual spread of covid-19 in India and brought a sudden halt in economic activity in April and May, with gradual opening up in June. The stringent lockdowns led to complete shutdown of most business operations for nearly 40-50 days of the quarter and hence the CICI index value fell to new lows of 58.

The following table is a summation of the number of responses in each of the three categories (improved, remained same and worsened) for all parameters, calculated for all 47 industries in Q1-FY21.

Table 1: Summation of all responses in Q1-FY21

Parameters → / Responses ↓	Revenue growth	Growth in operating profit margin	Change in pricing	Modified Credit Ratio (MCR)	Change in interest coverage ratio	Outlook	Total responses
Improved	7	19	17	0	8	10	61
Remained same	1	7	5	18	1	10	42
Worsened	39	21	25	29	38	27	179
Total responses	**47**	**47**	**47**	**47**	**47**	**47**	**282**

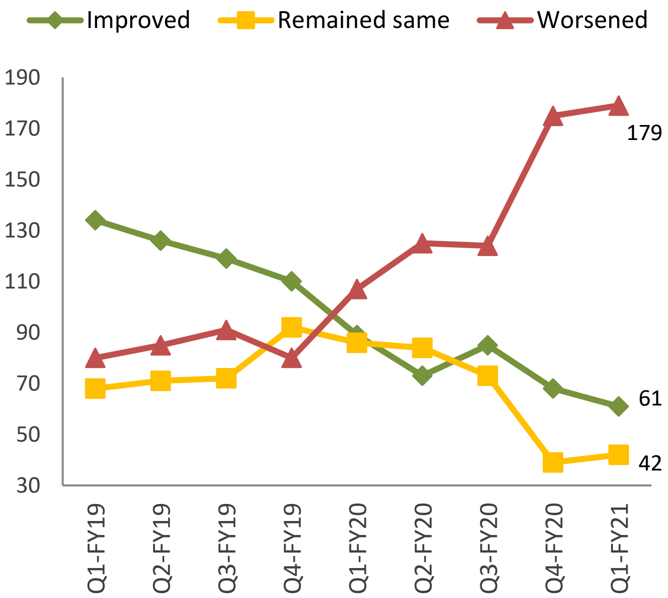
The table shows that out of the 282 total responses, the maximum (179 responses or 64%) are in the 'worsened' category. Of the 47 industries, 39 industries witnessed a decline in revenue growth, 21 industries witnessed fall in operating margins, 25 witnessed adverse fluctuation in pricing, 29 industries witnessed fall in the modified credit ratio and 38 industries witnessed deterioration in interest coverage ratio, during Q1-FY21 when compared on a YoY basis.

Industries whose performance deteriorated for at least 4 out of the total 6 parameters are commercial vehicles, passenger vehicles, automobile ancillaries, retail, hospitality and tourism, edible oil, textiles, cement, coal, aluminium, copper, crude oil, lead, zinc, steel, hospitals, aviation, power, ports, shipping, roads and highways, real estate, media and entertainment, paper and paper products, gems and jewellery, ceramics tiles and sanitaryware. Outlook for majority of these industries are in the 'worsened' category, with few in the 'remained same' category. This means that recovery of such industries is not expected in the myopic future.

The industries where at least 4 out of the total 6 parameters have shown an improvement in performance in Q1-FY21 are tractors, agrochemicals, fertilizers, drugs and pharmaceuticals. These are the best performing industries in the Covid-19 scenario.

Past performance

Chart: Number of responses across quarters



Sorce: CARE Ratings

The chart on left depicts the number of responses in the three categories in the past 9 quarters.

Analysis of this chart shows that the number of 'improved' responses has fallen considerably since Q1-FY19, which means increasing number of industries have shown deterioration in performance across various parameters over the past few quarters.

The number of 'remained same' responses across all industries, rose up to only Q4-FY19, which means stability in performance of various industries has reduced after Q4-FY19.

The number of 'worsened' responses has risen sharply since FY19 (except in Q4-FY19 and Q3-FY20). Such drastic rise in number of 'worsened' responses is indicative of the sluggish performance of various parameters across industries.

Concluding remarks:

- The CICI value of 58 reinforces the downturn in Indian economy in the first quarter of the ongoing fiscal. The state of the economy was low for few quarters even before the pandemic started in our country, however, the scenario worsened as the virus gradually spread further in the nation. Due to such fall in various industries' performances, the CICI value fell to 58 in Q1-FY21 (lowest in past 9 quarters).

- Revenues growth, interest coverage ratio and MCR are among the 6 parameters that showed the highest signs of strain across industries.

- The index value is expected to remain low and it would be interesting to see when there is a reversal in direction. We do expect GDP growth to turn positive in Q4 and this could be the turning point for CICI. Also, the level of negative growth in GDP is to be less severe in the next two quarters and these points too would need to be monitored closely.

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