Movement in CARE Ratings' Industry Confidence Index (CICI): Q2FY21

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CARE Ratings' Industry Confidence Index

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 y-o-y 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. The MCR is calculated on a 4 quarter rolling basis and the 'expectation' includes an objective score for outlook of near future.

Parameters used for scoring CICI:-

I. Financial performance:

- Revenues
- 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).

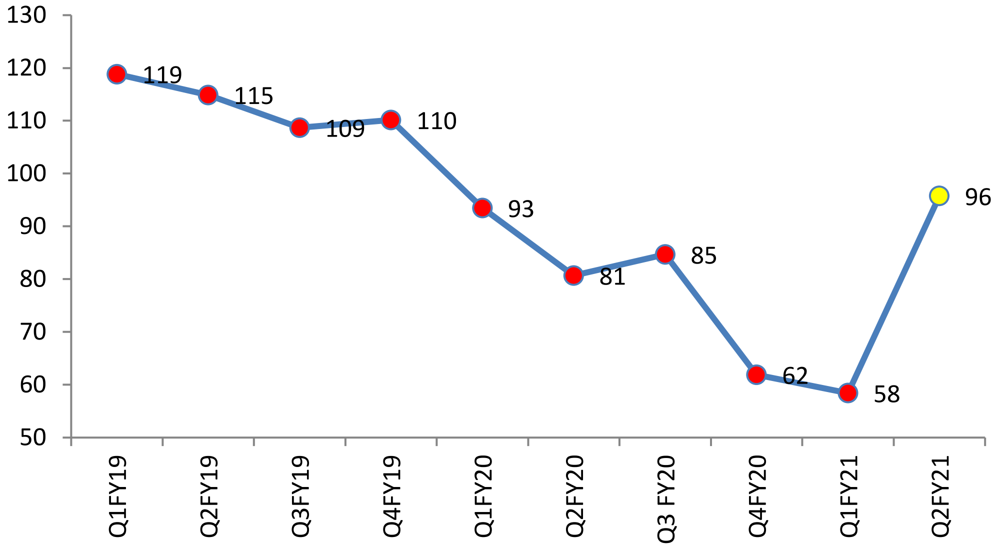
After analyzing the industry scenario, a response for each parameter is given in the form of 'improved', 'remained same' or worsened'. Post which, the final score for the index for a particular quarter is calculated after considering inputs from all 47 industries. This final score would range between 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 Q2FY21.

Movement in CARE Ratings' Industry Confidence Index (CICI)

The confidence index improved sequentially by a strong 63.9% and by 19% y-o-y to 96 during Q2FY21 primarily backed by easing of lockdown restrictions June 2020 onwards which supported the resumption of economic activities. This, in turn, aided the consumer demand and also the industry operations to run at higher capacities. The confidence index had touched a low of 58 in Q1FY21 due to Covid-19 induced lockdown restrictions that started in the last week of March 2020 and remained in effect till May 2020.

Chart 1: CARE Ratings' Industry Confidence Index



Source: CARE Ratings
Note: Compiled on the basis of scores in the Model, "This score has been arrived at and is the view of CARE Ratings' analysts and not that of industry participants."

It is to be noted that the confidence index reached the value of 96 only after a gap of 5 quarters. Also, it can be seen that the index which was in the range of 109-119 during FY19 had contracted to the range of 62-93 in FY20 mainly due to sustained economic slowdown during the year.

To understand the upward movement in confidence index better and to see which all parameters supported the index growth backed by easing lockdown restrictions, let us have a look at the broad summary of responses (across 3 categories: improved, remained same and worsened) for each of the 6 parameters for a total of 47 industries during Q2FY21.

Table 1: Summary of all responses for 47 industries (Q2FY21)

	Revenues	Operating margin	Prices	Modified Credit Ratio (MCR)	Interest coverage ratio	Outlook	Total
Improved	14	34	15	7	29	15	114
Remained same	4	1	8	11	4	14	42
Worsened	29	12	24	29	14	18	126
Total Responses	47	47	47	47	47	47	282

Some findings from responses

From the above table it can be seen that the share of worsened responses was the highest at 126 (44.7%) followed by improved responses at 114 (40.4%) and remained same responses at 42 (14.9%). Notwithstanding this, it is to be noted that the share of worsened responses saw a contraction in Q2FY21 compared to its share in Q1FY21 where it was at 179 responses (63.5%). Also, the contribution of improved responses saw an expansion compared to its share in Q1FY21 where it was 61 responses (21.6%). The share of neutral responses however remained constant at 42 responses (14.9%).

The above responses for 47 industries indicate that the **revenues, prices and MCR** parameters saw majority of their responses in the worsened category which highlights that these parameters restricted the growth in confidence index during Q2FY21. The responses for the parameters **operating margin and interest coverage ratio** for majority of the industries, on the other hand, indicated improvement which supported the upward movement in confidence index.

On the outlook front it can be seen that out of the 47 industries, outlook for majority of the industries (18 of them) is expected to be in the worsened category while outlook for 15 industries is likely to be in the 'improved' category. Outlook for the other 14 industries is expected to be in the remained same category as their outlook does not either have favourable factors to be considered nor do they have any unfavourable business sentiments to be considered. These responses thus indicate that the overall outlook for all the 47 industries remains a mixed bag (negative, positive and neutral) even when the confidence index has improved sequentially and yearly to the value of 96 in Q2FY21.

From the responses it could be understood that there were certain industries which were in improved category for more than 3 parameters out of the 6 parameters while there were some of them which were in worsened category for more than 3 parameters. Below is the list of such industries for Q2FY21.

Industries that were in improved category for more than 3 parameters	Industries that were in worsened category for more than 3 parameters
Passenger vehicles	Textiles
Tractors	Roads & Highway
Cement	Gems and Jewellery
Agrochemicals	Retail
Drugs and pharma	Crude Oil
IT & ITeS	Real Estate
Auto-Ancillaries	Paper and Paper Products
Edible oils	Hospitality & Tourism
Copper	Refinery & Petro-Products
Steel	Films
Telecom	Glass
Paints	Warehousing
FMCG	Education
Television	Petrochemicals

It is important to note that the industries textiles, roads & highways and gems & jewellery are the 3 sectors that remained in the worsened category for all the 6 parameters considered during Q2FY21.

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