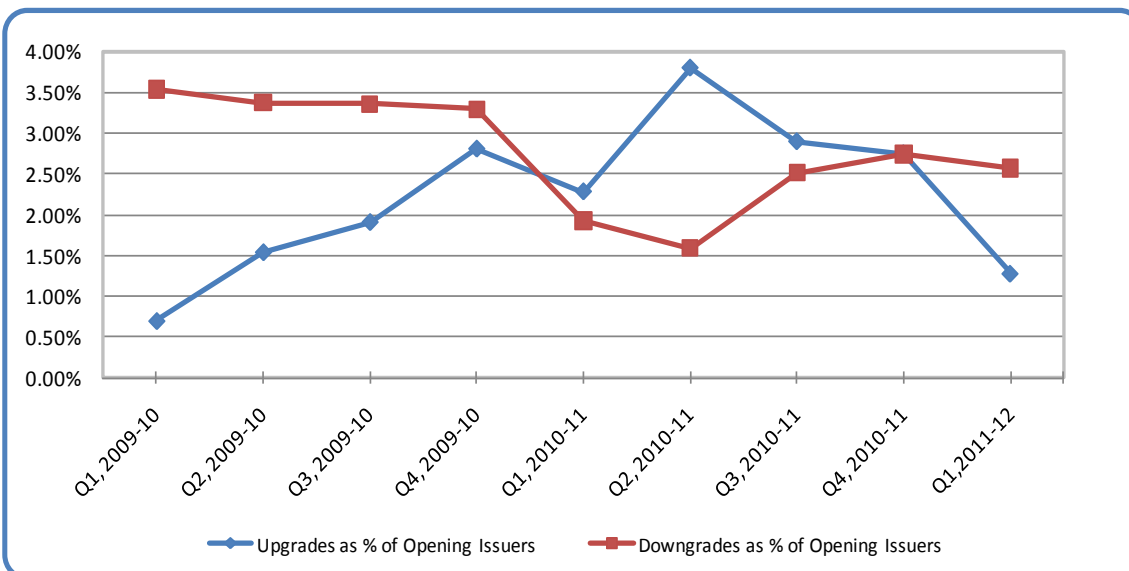




Performance of ICRA-Assigned Ratings Update for first quarter of 2011-12

This rating feature presents a study of the changes in ICRA-assigned ratings, in terms of upgrade and downgrade, in the first quarter (Q1) of the financial year 2011-12*. The declining trend in the total number of rating downgrades as a percentage of opening issuers¹ reversed course in Q2, 2010-11 and continued to increase into Q1, 2011-12; a similar trend reversal was seen in the number of rating upgrades as a percentage of opening issuers. The key findings of the study are captured in the charts and the bullet list that follow. A brief discussion on the changing complexion of the universe of ICRA-rated entities appears after the bullet list.

Chart 1: Quarterly Trend in Rating Upgrades and Downgrades



- The total number of rating downgrades as a percentage of opening issuers reversed course in Q2, 2010-11 to present a rising trend: the figure rose from 1.59% in Q2, 2010-11 to 2.52% in Q3, 2010-11, and then further to 2.75% in Q4, 2010-11; thereafter, it remained at the elevated levels of around 2.57% in Q1, 2011-12. The total number of rating upgrades as a percentage of opening issuers presented a similar pattern of course-reversal: the figure fell from 3.80% in Q2, 2010-11 to 2.90% in Q3, 2010-11, and then to 2.75% in Q4, 2010-11, before resting at 1.27% in Q1, 2011-12.
- The inverse credit ratio² rose from 0.42 in Q2, 2010-11 (0.85 in Q1, 2010-11) to 0.87 in Q3, 2010-11, and then to 1 in Q4, 2010-11 and finally to 2.02 in Q1, 2011-12, driven primarily by a significant increase in the number of rating downgrades and a decline in upgrades.
- As much as 68% of the issuers downgraded in Q1, 2011-12 had been rated in the Non-Investment grade at the beginning of Q1, 2011-12, as against 59% in Q1, 2010-11, indicating that the large majority of the downgrades in Q1, 2011-12 involved issuers with relatively weaker credit profiles.

* April 1, 2011 to March 31, 2012

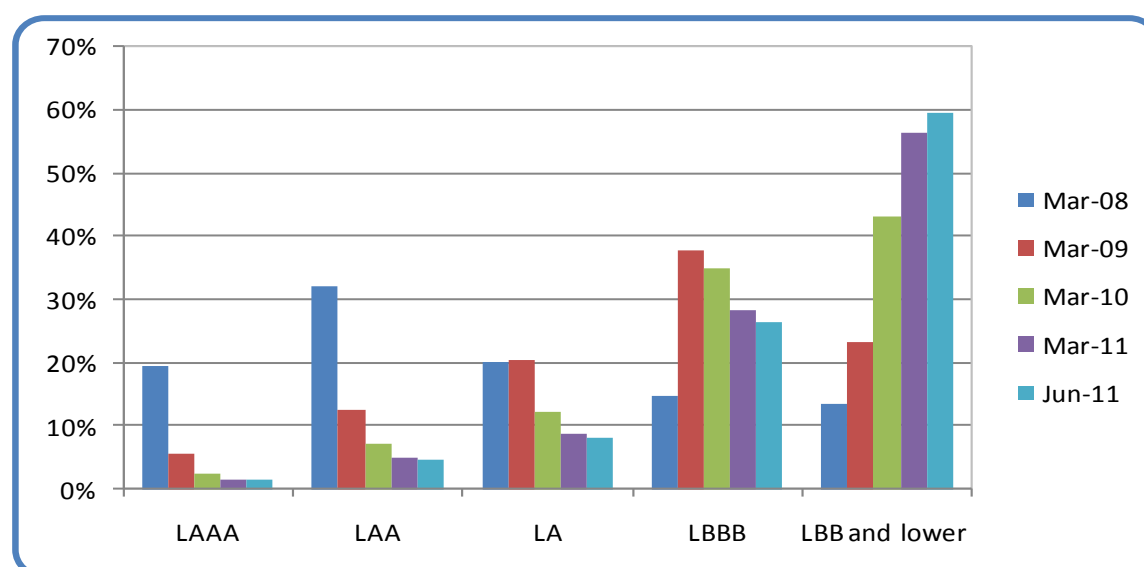
¹ Number of issuers with live ratings at the beginning of the specified period.

² The ratio between downgrades and upgrades.

- The large rating change rate (LRCR)³ for overall rating changes declined from 4.70% in 2010-11 to 1.19% in Q1, 2011-12 (1.05% in Q1, 2010-11), reflecting moderation in the severity of rating changes.
- In terms of sectors, the ones in which most of the rating downgrades were effected during Q1, 2011-12 included, among others: real estate & construction; metals & mining; and textiles. These sectors accounted for about 40% of the downgrades in Q1, 2011-12. As for upgrades, the main sectors in which upgrades were seen during Q1, 2011-12 included, among others: metals & mining; real estate & construction; and auto ancillaries. These sectors accounted for about 33% of the total upgrades during the period under review.
- Some sectors like real estate & construction and metals & mining saw a significant number of downgrades and some upgrades during Q1, 2011-12, with the rating actions being prompted by the interplay of several sector-specific and company-specific factors. However, with the number of downgrades being higher than the number of upgrades, the inverse credit ratio for real estate & construction (2.5) and that for metals & mining (2.2) were both higher than the average for the overall rating changes (2.02) effected during Q1, 2011-12.
- The increase in the percentage of downgrades that started during the second half (H2) of 2010-11 is likely to continue in the current financial year. In ICRA's view, the factors that impacted the credit profiles of issuers over the last two quarters of 2010-11 are likely to persist this fiscal. These factors include, among others: moderation/slowdown in demand conditions; compression of operating profitability because of cost pressures, and inability of companies to pass on the higher costs in a scenario of increasing competitive intensity; higher interest rates; lacklustre capital markets, which would constrain access to equity; project implementation related delays; reduced profitability of new projects (because of competitive pressures, higher feedstock prices and higher interest costs) funded with relatively higher leveraging; and increase in counterparty risks and in concerns over fuel linkages in the power sector. However, the extent by which these factors, among others, influence the credit profiles of the ICRA-rated entities will be determined eventually by the individual strengths and weaknesses of the entities concerned.

Composition of ICRA-rated universe continues to tilt towards lower investment-grade categories

Chart 2: Distribution of ICRA-Assigned Long-Term Ratings Outstanding by Category



As *Chart 2* shows, the proportion of lower-rated issuers in the universe of ICRA-rated entities has increased significantly over the last two years. The percentage of entities rated in the LBBB or lower

³ Defined as the ratio of issuers for whom the rating change was by three or more notches to the number of live issuers at the beginning of the period under review. The LRCR, in practice, is influenced mainly by downward rating changes since multiple-notch movements happen primarily in the downward direction.

rating categories increased from 61% as on March 31, 2009 to 86% as on June 30, 2011. This shift is attributable to the large influx of bank loans in the rating universe, besides to a significant increase both in the number of ratings assigned and in the acceptance of lower category ratings.

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