RATINGS ROUNDUP

First Half 2002-03

The Credit Rating Information Services of India Limited

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The first half of the financial year 2002-03 may hold the promise of a change in economic direction, according to the CRISIL Ratings Round-Up for this period. The improvement in some core sectors in the last six months has resulted in an improvement in CRISIL's credit ratios (ratio of upgrades to downgrades). While the number of upgrades during 2001-02 and for the first half of 2002-03 both equaled 4, the number of downgrades during the first half of 2002-03 was significantly lower at 10 as compared to 38 during the whole of 2001-02. This sign of improvement was despite the depressed economic trends and downward rating pressures witnessed during FY2001-02 and lingering concerns about the weak monsoon during the current year. However, the credit ratio is still less than one, as downgrades continue to outnumber upgrades and therefore it would appear that any strong economic recovery is still some distance away. In CRISIL's opinion, the likelihood of this change in economic direction growing into a meaningful improvement in the state of the economy would be critically dependent on the growth in investment activity.

About the CRISIL Ratings Round-Up

The CRISIL Ratings Round-Up is a semi-annual publication that analyses the composition and trajectory of CRISIL's rating actions during a particular period besides analyzing the linkages between these actions and underlying economic trends.

This edition analyses CRISIL's rating actions and rated debt volumes in the first half (H1) of FY 2002-03 and compares them with previous periods. The rating actions are analysed under four broad categories: rating upgrades and downgrades, rating stability rates, rating distribution and rated debt volumes. The study also analyses the linkages that macro-economic factors have tended to have with systemic credit quality as represented by CRISIL's rating actions. For the first time, this edition of Ratings Round-Up also analyses the rating actions in CRISIL's fixed deposit (FD) portfolio and the trends in CRISIL-rated securitized debt.

Key Conclusions

Improvement in trajectory of aggregate credit fundamentals

CRISIL's modified credit ratio[1] for long-term ratings improved to 0.95 in the first half of 2002-03 as compared to 0.87 in first half of FY02 and 0.85 for the whole of FY02. Similarly, the modified credit ratio for CRISIL's FD ratings improved during the current year's first half to 0.98 as against 0.92 in the corresponding period last year and against 0.89 for the whole of FY02. This may indicate that the sign of improvement in systemic credit quality which was observed in FY00, but which retracted in FY02, is reemerging.

Improving credit trajectory moving in step with underlying economic fundamentals

CRISIL's modified credit ratio continues to exhibit a strong correlation with macro-economic indicators such as the growth rates of the index of industrial production (IIP) and gross domestic product (GDP) as well as the aggregate quantum of equity mobilised by corporates. The improvement in the modified credit ratio in H1FY03 reflects the higher equity mobilisation by corporates and the improvement in both IIP and GDP growth rates in this period. It also reflects the arrest of the rising real interest rate trend of FY02.

Trend of improving stability of CRISIL's ratings maintained

The improvement in the stability of CRISIL's ratings that began in FY2000 continued in H1FY03. In this six-month period, CRISIL reaffirmed about 88% of all its continuing long-term ratings compared to a reaffirmation level of about 84% in H1FY02 and about 82% in all of FY02.

Synopsis of rating actions

CRISIL's long-term rating portfolio saw 10 downgrades in H1FY03, of which two were from the investment grade to the speculative grade, one was within the speculative grade while seven were within the investment grade. In six instances, the extent of downgrade was limited to one notch. The companies that saw a higher level of downgrade included consumer durable majors, BPL Ltd. ('A-' to 'D') and Videocon International ('A' to 'BB'). Atlas Cycle Industries, which was downgraded from 'A+' to 'BBB', is experiencing a dispute within the promoter group while Max India Ltd, which was downgraded from 'A' to 'BBB', is undergoing a fundamental business transformation. On the other hand, two companies that had defaulted in the past, Lupin Ltd and Kalyani Steels, were upgraded to the 'BB' category.

The FD rating portfolio witnessed eight upgrades and four downgrades. Of the eight upgrades, five pertained to bank-promoted housing finance companies and reflected the step change in the strategies of nationalized banks. On account of the extraordinary nature of this rating revision, these 5 upgrades have been excluded from the analysis. The other three were one-notch upgrades. Of the four downgrades, three were by more than one notch - BPL Ltd. ('FA' to 'D'), EIH Ltd. ('FAAA' to 'FAA') and Amtrex Hitachi Appliances Ltd. ('FA+' to 'FB+').

CRISIL ratings maintain trend of improving stability

CRISIL's long-term ratings portfolio witnessed 118 rating actions in the first half of FY03. This comprised four upgrades, 10 downgrades and 104 reaffirmations. This translates to a reaffirmation level of 88% of all rating actions. This ratio has improved significantly from a level of about 84% in H1FY02 and 82% in all of FY02.

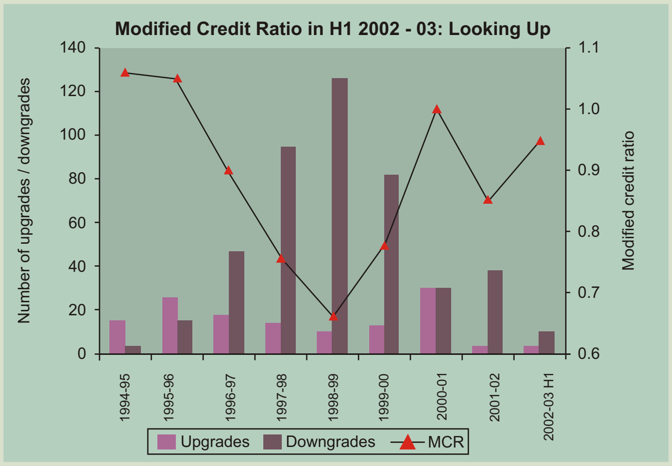
The FD ratings portfolio witnessed eight upgrades, four downgrades and 59 reaffirmations in H1FY03. However, five of the eight upgrades are excluded from the analysis for the reasons mentioned above. Thus, the FD portfolio also witnessed a reaffirmation level of about 89% in this period against a level of about 88% in H1FY02 and a much lower level of about 82% in FY02.

The list of CRISIL's upgrades and downgrades for long-term and FD ratings in H1FY03 is enclosed.

[1] The modified credit ratio (the ratio of [upgrades + reaffirmations] to [downgrades + reaffirmations]) is a good indicator of the performance of CRISIL's portfolio and, given the breadth of CRISIL's portfolio, also an effective indicator of systemic credit fundamentals. The modified credit ratio is superior to the conventional credit ratio (upgrades/downgrades) as it tends to be less volatile than the conventional credit ratio in periods when the number of upgrades and downgrades is much smaller than the number of reaffirmations.

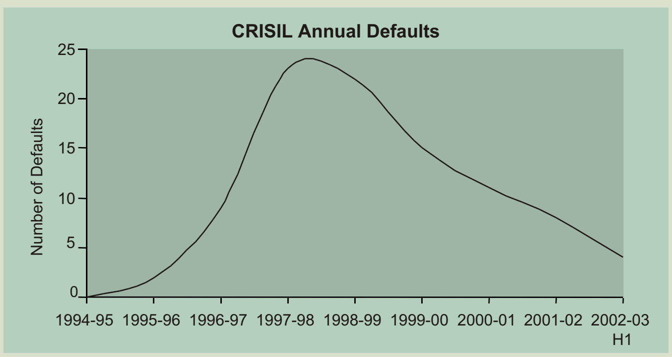
Credit trajectory improves in H1FY03

Rising credit ratios: The trajectory of credit fundamentals, as measured through rating actions, may be seen through two parameters: the credit ratio (ratio of upgrades to downgrades) and the modified credit ratio, which is defined as the ratio of upgrades plus reaffirmations to downgrades plus reaffirmations. CRISIL favours the use of the latter since it avoids some weaknesses of the simple credit ratio.



CRISIL's modified credit ratio for long-term ratings in H1FY03 improved to 0.95 over 0.87 in H1FY02 and 0.85 in the 12 months of FY02. A similar improvement is seen in the modified credit ratio for CRISIL's FD ratings to 0.98 in H1FY03 from 0.92 in H1FY02 and 0.89 in FY02. The corresponding improvement in CRISIL's simple credit ratio was much sharper. The simple credit ratio for long-term ratings improved to 0.4 in H1FY03 from 0.11 in both H1FY02 and all of FY02. The FD portfolio's simple credit ratio improved to 0.75 in H1FY03 over 0.25 in H1FY02 and 0.20 in FY02.

Falling number of defaults



In the above graph, the number of defaults in this year's semi-annual period has been multiplied by two in order to compare with other data points, which are annual.

The number of defaults in CRISIL's long-term ratings reached a new low in H1FY03, having consistently decreased since 1997. There were two defaults in H1FY03 compared to four in H1FY02 and eight in FY02. CRISIL's FD portfolio saw just one default in H1FY03 and even that was on account of BPL Ltd., which had a co-terminus default on its long-term instruments. In comparison, H1FY02 had no defaults while there was one default in all of FY02 on account of Hindustan Organic Chemicals Ltd., which too had a co-terminus default on its long-term instruments.

[2]Entities in service industries have been classified as 'manufacturing' for the purpose of analysis

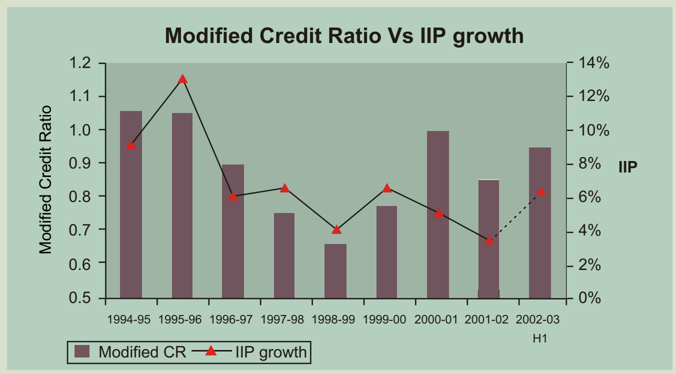
Trends in rating actions across manufacturing, finance and infrastructure sectors continue to be similar

Over the years, CRISIL's rating action trends have been very similar across the manufacturing, finance and infrastructure sectors[2]. The number of annual rating changes as a percentage of continuing ratings has been in the 15-20% range in each sector over the last three years. In fact, even during the preceding two-year period of rating changes in 1997-99, the pattern of rating changes was similar across sectors.

In H1FY03, 13 of the 14 rating changes in CRISIL's long-term rating portfolio were in the manufacturing sector. This was mainly due to the fact that the number of outstanding ratings in the manufacturing sector comprises close to three-fourths of all outstanding CRISIL ratings. The only other rating change in H1FY03 was a downgrade in the infrastructure sector. Correspondingly, H1FY02 saw two rating changes each in the infrastructure (including one upgrade) and finance sectors and 16 changes in the manufacturing sector (one upgrade).

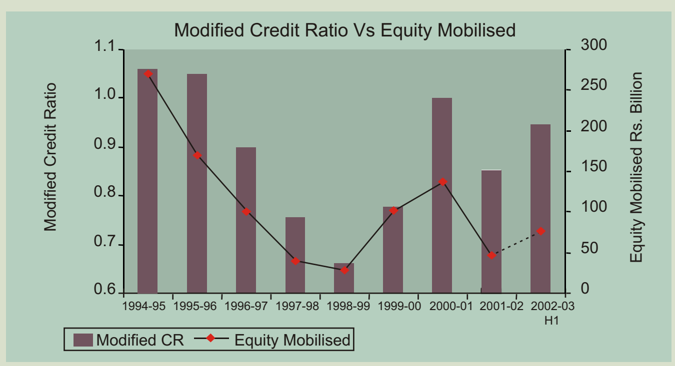
In the FD portfolio, five of the 12 rating changes in H1FY03 were in the financial sector with the other seven being in the manufacturing sector. In FY02, there were three rating changes in the financial sector, one in the infrastructure sector and 20 in the manufacturing sector.

CRISIL's modified credit ratio continues to show a strong correlation with economic trends



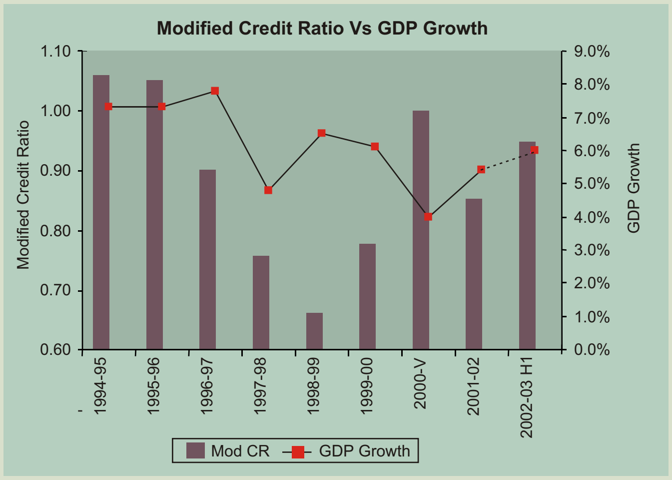
Source: CMIE Review of Indian economy, CRISIL Economic cell

Sharp changes in the IIP growth rate have usually coincided with movements in the credit ratio. The mid-1990s, which were characterised by strong IIP growth rates, saw modified credit ratios above 1. As the IIP growth rate halved in FY98 and FY99, the modified credit ratio simultaneously fell into the 0.7-0.8 range. The upswing in the IIP growth rate in H1FY03 appears to be one of the main causes of the improved modified credit ratio.



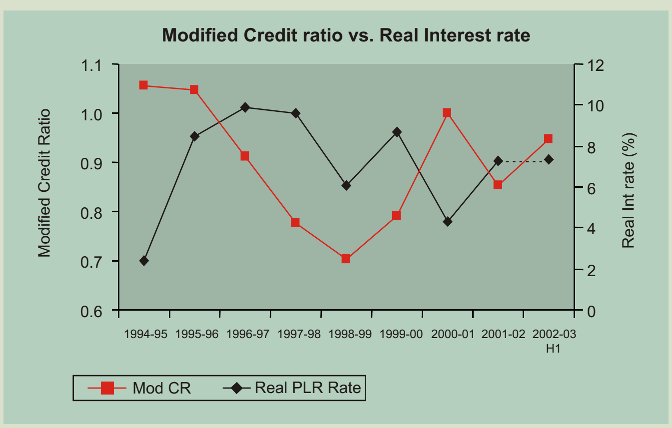
Source: CMIE Review of Indian economy

The modified credit ratio has shown a strong correlation with the quantum of equity mobilised by Indian corporates. Both equity mobilisation and the modified credit ratio followed a declining trend till FY99. This was followed by a recovery during the next two years, which was interrupted in FY02. The linkage continued in H1FY03 as the increased amount of equity mobilized by corporates found immediate reflection in an improved modified credit ratio in this period.



Source: CMIE Review of Indian economy, CSO

A significant, through smaller, degree of correlation has been observed between the GDP growth rate and the modified credit ratio. GDP growth in the first quarter of FY03 is estimated at 6% by the CSO (Central Statistical Organisation), an improvement on the 5% growth seen in FY02. The improvement in the modified credit ratio would appear to bear out the CSO's estimates for GDP growth in the current year.

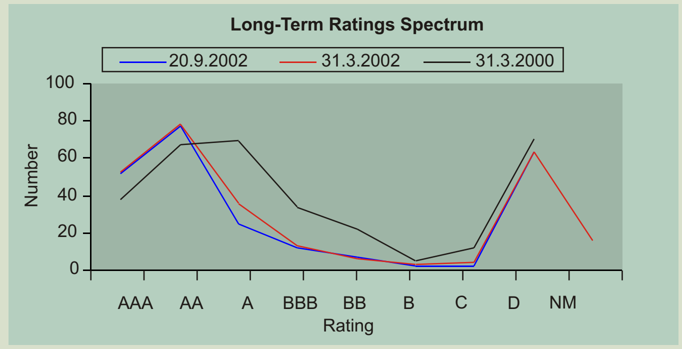


Source: Economic Survey 2001-02, Ministry of Finance, GOI; CRISIL Economic Cell

The modified credit ratio displays a near-perfect inverse correlation with the real interest rate (interest rates adjusted for inflation). Real interest rate changes reflect the increasing cost of borrowing for corporates in relation to product prices. The consequent increase in interest outflows immediately affect profitability and interest coverage levels. A sustained high real interest rate, as witnessed between 1995 and 1998, also impacts the companies' competitiveness in both the export market and against imports. The improved modified credit ratio in H1FY03 reflects the fact that real interest rates have stabilized after the increasing trend of FY02.

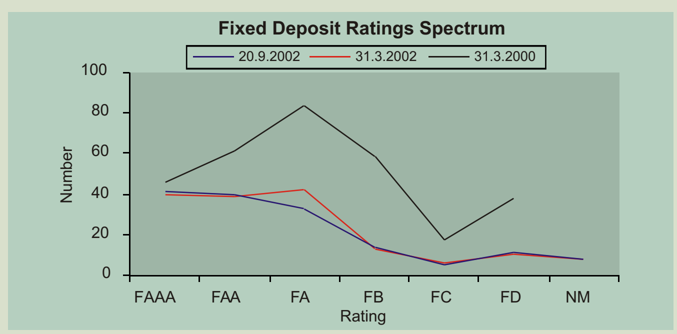
Trends in ratings distribution maintained

Continuing polarization in long-term ratings: CRISIL's long-term ratings in H1FY03 continued to exhibit the trend of polarisation observed over the past few years. This polarization indicates the underlying trend of strong companies (having a competitive business position, strong parentage or group support) growing stronger and weak companies (having moderate ratings of 'A'/'BBB') being weeded out by decline or consolidation with strong entities.



In H1FY03, this polarization was accentuated by the high number of withdrawals in the 'A' and 'BBB' rating categories - these categories saw 10 withdrawals. This comprises around 20% of the outstanding ratings in these categories as at March 31, 2002, as against a 7% withdrawal rate in the 'AA' and 'AAA' categories in the same period. Consequently, the proportion of 'AA' and 'AAA' rated entities has been increasing from 33% in March 2000 to 48% in March 2002 and to over 50% by September 2002.

Fixed deposits steadily losing their appeal among issuers:
FD ratings have displayed a secular decline in the number of rated entities across all rating categories. Except for the banking sector, fixed deposits have been losing prominence as an instrument of mobilizing resources directly from the public. This is mainly because banks have been able to offer wholesale funds at competitive interest rates in a falling interest rate regime. Thus, the number of outstanding CRISIL FD ratings fell to 144 in September 2002 from 153 in March 2002 and 166 in September 2001.



Composition of incremental long-term debt volumes indicate dominance of 'AAA's

(Trends in incremental volumes of CRISIL-rated debt are analyzed in terms of the number of companies and the amount of debt rated across rating categories. Incremental debt volumes arise out of new ratings or enhancements to current rated volumes. In case of enhancements, only the increase in rated volume is considered for the analysis.)

Historically, 'AAA'-rated entities have accounted for the bulk of CRISIL-rated long-term debt. Improving industrial growth rates between 1998 and 2001 coupled with a deepening of the Indian market, however, saw an unusually high share of non-'AAA' issuers accessing the debt market in Fy02. 'AAA' issuers, however, have again dominated the past half- year. The fact that 'AAA'-rated debt accounted for over 90% of CRISIL's rated incremental debt volumes in H1FY03, seems to point at a tightening of purse strings by long-term debt investors. The aggregate amount of incremental rated debt in H1FY03 also declined by a little more than 25% over H1FY02.

The rise in 'AAA'-rated debt in H1FY03 over H1FY02, both in terms of the total rated debt (21%) and the debt per issuer (79%), is driven by some large borrowers. Five entities - Power Finance Corporation, Rural Electrification Corporation, National Highway Authority of India, National Thermal Power Corporation Ltd and Housing Development Finance Company- accounted for a combined debt volume of Rs. 186 billion or 88.5% of the incremental 'AAA'-rated debt in this six-month period.

Trends in Incremental Rated Long-Term Debt

Rating	Apr-Sep 2002 - 03			Apr-Sep 2001 02			
	Number of issues	Debt Volumes Rs. Billion	Fraction of total debt	Number of issues	Debt Volumes Rs. Billion	Fraction of total debt	Fraction of total debt (excl IDBI)
AAA	17	210.12	90.25%	25	174.33	54.82%	75.94%
AA	15	22.40	9.62%	30	141.17	44.39%	23.97%
A	1	2.25	0.11%	4	2.50	0.79%	1.09%
BBB	1	0.04	0.02%			0.00%	0.00%
Total	34	232.82		59	318.00		

Correspondingly, the quantum of incremental debt mobilized in the 'AA'-category in H1FY03 has declined by 84% over H1FY02, both due to fewer issuers and lower debt volumes per issuer. While the number of 'AA'-rated entities has halved (from 30 to 15), the debt per issuer has declined by 68%. But this is largely explained by a large debt programme of Rs. 88.43 billion by Industrial Development Bank of India in H1FY02. If you exclude this programme, the fall in incremental rated debt per issuer for the 'AA' category is a much milder 17.9%.

Composition of incremental short-term debt volumes could indicate market saturation

The volume of incremental CRISIL-rated short-term debt (commercial paper (CP) and short-term debt programmes) fell sharply in H1FY03 over H1FY02. Although the number of new issuers has not fallen significantly, incremental volumes per issuer have fallen to Rs.700 million in H1FY03 ost from Rs. 1.3 billion in H1FY02. Only nine of the 39 short-term debt programmes in H1FY03 were of Rs.1 billion or above vis-à-vis 16 such issues in the corresponding previous period. Thus, the CP market appears to have saturated by March 2002 as most large borrowers had entered it by this time. H1FY03 witnessed the entry of mainly smaller players.

Trends in Incremental Rated Short-term debt

Rating	Apr-Sep 2002 - 03			Apr-Sep 2001 02		
	Number of issues	Debt Volumes Rs. Million	Fraction of total debt	Number of issues	Debt Volumes Rs. Million	Fraction of total debt
P1+	36	27675	98.93%	39	58780	96.52%
P1	3	300	1.07%	6	2018	3.31%
P2+			0.00%	1	100	0.16%
Total	39	27975		46	60898	

Securitised debt gains prominence

Securitised debt has become increasingly popular among both issuers and investors in recent years. This is evident from the fact that the ratio of incremental securitised debt to incremental non-securitised debt has risen to 6.3% in H1FY03 from 2.8% in H1FY02 in the 'AAA' rating category and to 19.1% from 2.7% in the 'AA' category in the same timeframe.

The number of securitised debt issuers too rose sharply from 13 in H1FY02 to 24 in H1FY03. Yet, the total quantum of incremental securitised debt almost halved in H1FY03 over H1FY02 largely because of the absence of state government entities as investor concerns over state government finances increased. That's also the reason why incremental securitized debt volumes actually rose across all rating categories except the 'A' category in H1FY03. State government entities accounted for all three programmes in the previous half-year period in 'A' category.

Trends in Incremental Rated Securitised Debt

Rating	Apr-Sep 2002 - 03			Apr-Sep 2001 02		
	Number of issues	Debt Volumes Rs. Million	Fraction of total debt	Number of issues	Debt Volumes Rs. Million	Fraction of total debt
AAA (so) / (fso)	16	13288	59.3%	7	4723	11.5%
AA (so)/ (fso)	3	4287	19.1%	3	3750	9.2%
A (so) / (fso)	2	2800	12.5%	3	32500	79.3%
P1+ (so)	3	2030	9.1%	0	0	0.0%
Total	24	22405		13	40973	

CRISIL Long Term Rating Upgrades / Downgrades in first six months of 2002-03:

UPGRADES

Sl No	Company	Industry	Sector	From	To
1	Eimco Elecon (India) Ltd.	Engineering	Manufacturing	A+	AA-
2	Kalyani Steels Ltd.	Steel & Steel products	Manufacturing	D	BB
3	Lupin Ltd.	Drugs & Pharmaceuticals	Manufacturing	D	BB+
4	Tata SSL Ltd.	Steel & Steel products	Manufacturing	AA-	AA

DOWNGRADES

Sl No	Company	Industry	Sector	From	To
1	Atlas Cycle (Haryana) Ltd / Atlas Cycle Industries Ltd.	Cycle & Cycle components	Manufacturing	A+	BBB
2	BPL Ltd.	Consumer Durables	Manufacturing	A-	D
3	Escorts Ltd	Automobiles- 3 & 4 Wheelers	Manufacturing	A	A-
4	Excel Industries Ltd.	Pesticides & Agrochemicals	Manufacturing	A+	A
5	Lafarge India Ltd.	Cement	Manufacturing	AA	AA-
6	Max India Ltd.	Diversified	Manufacturing	A	BBB
7	Orient Paper & Industries Ltd.	Diversified	Manufacturing	C	D
8	Perfect Circle India Ltd.	Auto-Ancillaries	Manufacturing	A	A-
9	Tata Power Company Ltd.	Power	Infrastructure	AAA	AA+
10	Videocon International Ltd.	Consumer Durables	Manufacturing	A	BB

CRISIL Fixed Deposit Rating Upgrades / Downgrades in first six months of 2002-03:

UPGRADES

Sl No	Company	Industry	Sector	From	To
1	BOB Housing Finance Ltd.	Housing Finance	Finance	FAA+	FAAA
2	Cent Bank Home Finance Ltd.	Housing Finance	Finance	FA+	FAA-
3	Corpbank Homes Ltd.	Housing Finance	Finance	FA+	FAAA
4	PNB Housing Finance Ltd.	Housing Finance	Finance	FAA-	FAA+
5	Tamil Nadu Newsprint and Papers Ltd.	Paper & Paper Products	Manufacturing	FAA	FAA+
6	Venkateshwara Hatcheries Ltd	Hatcheries	Manufacturing	FA	FA+
7	Venky's (India) Ltd.	Hatcheries	Manufacturing	FA+	FAA-
8	Vibank Housing Finance Ltd.	Housing Finance	Finance	FA	FAA

DOWNGRADES

Sl No	Company	Industry	Sector	From	To
1	Amtrex Hitachi Appliances Ltd.	Air-conditioner	Manufacturing	FA+	FB+
2	BPL Ltd	Consumer Durable	Manufacturing	FA	FD
3	EIH Ltd.	Hotels	Manufacturing	FAAA	FAA
4	Excel Industries Ltd.	Pesticides & Agrochemicals	Manufacturing	FAA-	FA+

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