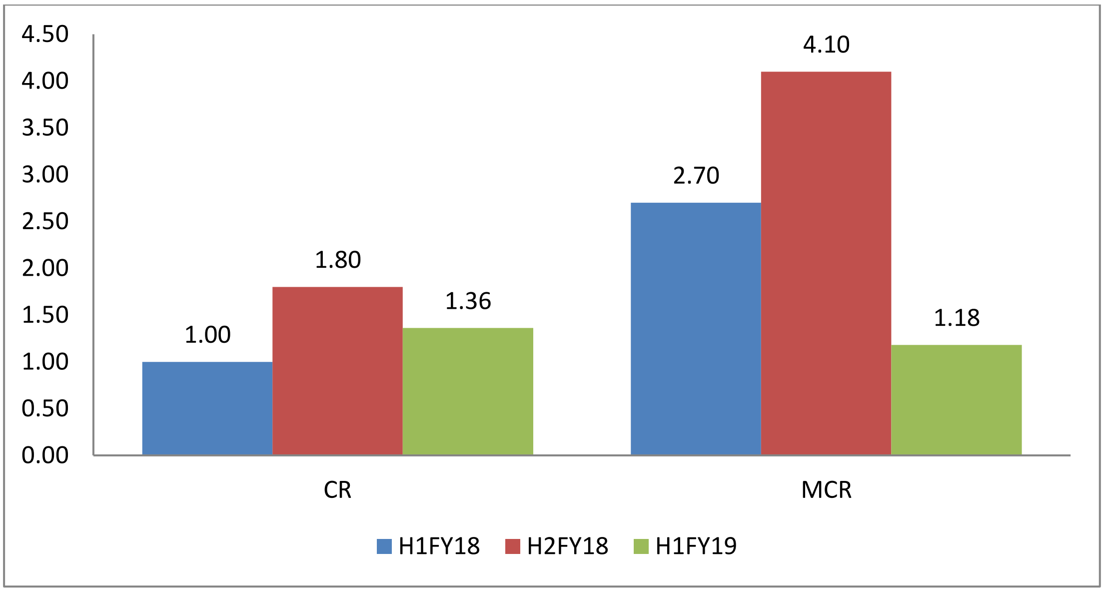
Ratings Round-Up- H1:2018-19

The credit ratio (CR) and the modified credit ratio (MCR) for Acuité Ratings & Research Limited in the first half of the current year both continued to be well above 1.0x, reflecting a conducive credit environment. However, the momentum of upgrades witnessed in the second half of 2017-18 has seen a slowdown in the first half of 2018-19. While the overall demand scenario continued to be robust, this was partly offset by a difficult funding environment, a firming up of interest rates, cost pressures arising from an increase in commodity, fuel prices and a steady depreciation in the rupee.

Credit Ratio (CR) is the ratio of the number of upgrades to the number of downgrades in the given period. Modified Credit Ratio (MCR) is the ratio of the total debt amount upgraded to the debt amount downgraded in the same period.

Graph 1: Credit Ratio (CR/MCR)



Acuité Ratings upgraded 76 ratings and downgraded 56 ratings while reaffirming 235 ratings during H1 FY19. There was only one upgrade in the AA category and 10 upgrades in the A category (latter includes 5 companies from the same group) with 46 upgrades taking place in the non-investment grade category. As against 56 rating downgrades, there were 7 downgrades in investment grade category and there were only 4 issuers in that lot that were downgraded to non-investment grade or default category. An analysis on the issuer upgrades indicates that a significant proportion of the upgrades is that of enterprises in the EPC sector and those in the iron and steel sector. There are no specific sectoral patterns observed in the downgrades made in the first half of the year.

The modified credit ratio (MCR) for Acuité Ratings is relatively more volatile given the current portfolio size and lower average ticket size vis-à-vis the larger CRAs. MCR has witnessed a sharp drop in H1FY19 primarily due to the downgrade in three large corporate entities in the first half of the current year.

Table 1: Annual Rolling Default Rate & Nos.

	Mar-18	Sep-18	
AAA	0	0	
AA	0	0	
A	0	0	
BBB	2	2	
BB	6	11	
B	20	19	
C	0	0	
Total	**28**	**32**	

Category	Mar-18	Sep-18
AAA	-	-
AA	0.0%	0.0%
A	0.0%	0.0%
BBB	1.2%	1.1%
BB	1.2%	1.9%
B	4.0%	3.5%
C	0.0%	0.0%
Total	**2.3%**	**2.4%**

There has been no material change in the default rates over a one-year period on a rolling basis. The overall annual default rate has been largely unchanged and stood at 2.4% as on September 2018.

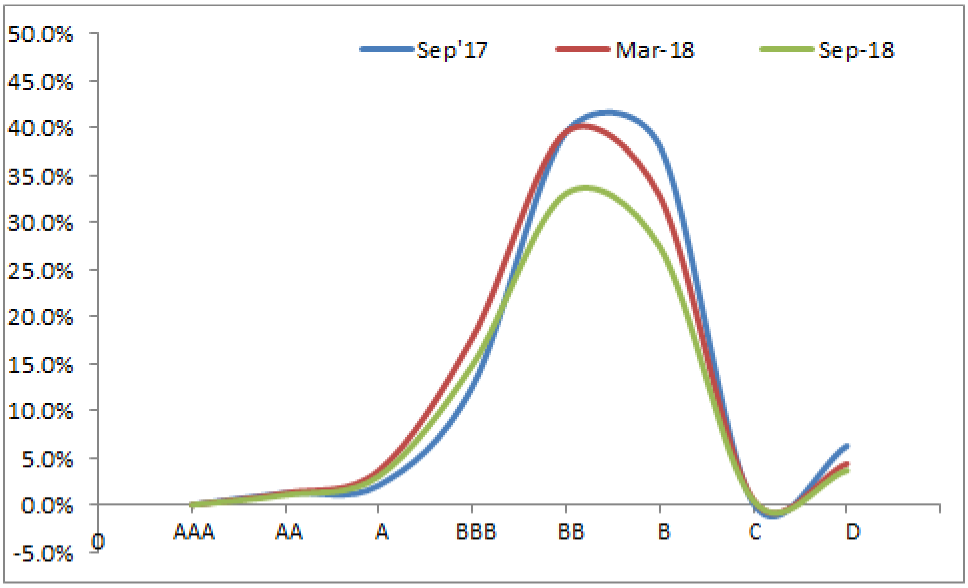
Over both the 12 month rolling periods April-March 2018 and October-September 2018, there have been 2 investment grade defaults from the BBB category. There have been no defaults on any ratings in the A or a higher category during the above periods. As on September 2017, there were 229 issuers with ratings in investment grade which comprised 15.9% of the total outstanding ratings.

Table 2: Cumulative Default Rate (CDR) - 3 Years

Rating Category	Outstanding No. of Ratings, Sep. 2015	Oct-Sep'16	Oct-Sep'17	Oct-Sep'18	3 Yr. CDR
	(A)	(B)	(C)	(D)	(B+C+D)/A
AAA	1	0	0	0	0.0%
AA	2	0	0	0	0.0%
A	11	0	0	0	0.0%
BBB	101	4	3	0	6.9%
BB	324	2	7	3	3.7%
B	406	11	16	5	7.9%
C	19	5	0	2	36.8%
Total	**864**	**22**	**26**	**10**	**6.7%**

An analysis of the CDR for the last 3 years ending September 2018 highlights that the overall default rate is modest at 6.7%. As against 58 defaults over the period, a predominant portion was from the non-investment grade category particularly B category and below. The default rate in BBB category is higher but needs to be seen in the context of a lower base of outstanding ratings. There has been no defaults in A category and above over the 3 year period.

Graph 2: Overall Rating Distribution:



There is no significant change in the rating distribution of Acuité Ratings in FY18. The median rating continues to be in the BB category. However, with the increasing penetration of Acuité Ratings into larger and better credit quality clients, the proportion of outstanding ratings in BBB category and above has gradually increased from 15.9% as on September 30, 2017 to 19.1% as on September 30, 2018.