

# Record Corporate Debt Downgrades in Third Qtr

725, or 6.8% of total, bonds downgraded raising fears of defaults and rise in NPAs of banks

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India's credit rating agencies have downgraded a record number of debt instruments in the three months to September, reflecting the stress on companies because of rising interest rates, higher input costs and falling demand.

Five rating agencies — Crisil, Care, Fitch, ICRA and Brickwork — downgraded 725 instruments in the third quarter of 2011, a 120% rise from a year ago, according to data compiled by the Centre for Monitoring Indian Economy, or CMIE.

"There has definitely been a downslide in credit profiles in the last few months," said DR Dogra, MD and CEO of Credit Analysis and Research (Care). "The future prospects are also looking down."

There is a 14% rise in the number of instruments downgraded in the period compared with the April-June quarter, indicating a possible rise in defaults and rise in the non-performing assets of banks.

In all, 6.8% of the total instruments outstanding were downgraded, the highest since the first quarter of 2009.

The number of instruments allotted a default rating rose 80% during the quarter, compared with the year-ago period, while the number of instruments up-

## Rising Stress Levels

PAPER COUNT	Q3 FY10	Q2 FY11	Q3 FY11
Downgrades	329	634	725
Upgrades	829	789	620
RATING			
Investment (top)	5344	5766	4995
Default (lowest)	454	572	820
Total papers rated	9263	10815	10617

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**NARESH TAKKAR, MD & CEO, ICRA**

Rating agencies considered: Crisil, Care, Fitch, ICRA, Brickwork

Source: CMIE

graded fell by 24% and those assigned an investment rating (the equivalent of AAA) fell by 3%.

An October 4 report released by Crisil says the situation is expected to worsen as demand starts to decline in response to monetary tightening that has seen policy rates rise 350 basis points over the last 18 months.

"While the relative frequency of upgrades and downgrades has already started moving down on account of profitability pressures, we are expecting

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inputs have taken a toll on profitability while the uncertain foreign environment has increased the project execution risks.

further downward pressure, primarily driven by demand moderation," Roopa Kudva, MD & CEO of Crisil said in the report.

High borrowing costs and costlier

An ET analysis of the third quarter results of 32 Nifty companies dropped 3% from a year ago even as topline expanded 24%, underscoring the hit on profitability.

"Consumption-linked industries such as automobiles, real estate, textiles and retail have seen significant impact on demand," Crisil study said.

Global rating agency Moody's on Wednesday downgraded the outlook on the Indian banking sector to "negative" from "stable" citing asset quality, capitalisation and profitability concerns.

"The banking sector has come under stress due to its linkages with the deteriorating real economy. In addition, sectors like real estate, infrastructure and those associated with international commodities have been downgraded in particular," said Naresh Takkar, MD & CEO of investment information and credit rating agency (ICRA) the Indian affiliate of Moody's.

"These downgrades are early signs for need of action in the absence of which the situation can become very serious", added Takkar issuing a warning about the condition of corporate debt.

The gross non-performing assets of public sector banks have been on the rise in the recent quarters, climbing to 2.55% of gross assets in the quarter ended June 2011 from 2.09% in March 2009.