



ICRA RATING FEATURE

Update for first Half, 2003

PERFORMANCE OF ICRA RATINGS

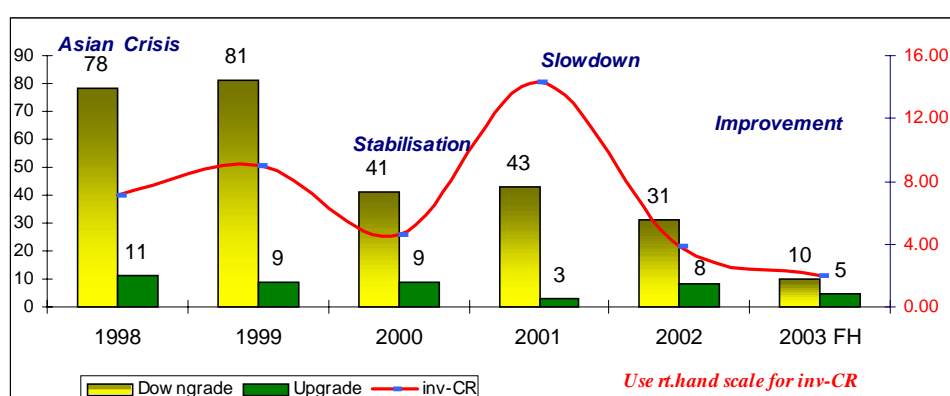
- ICRA ratings witnessed lower downgrades during the first half (FH) of 2003 as compared to FH 2002. The number of upgrades were also greater in FH 2003 as compared to FH 2002.
- The inv-CR (ratio between downgrades and upgrades) which had declined significantly in 2002 fell further in FH 2003.
- Stability of ICRA's Investment grade Long term ratings improved in FH 2003 as compared to 2002.
- Categorywise distribution of ICRA long term ratings as in July 2003, remains almost the same as in January 2003.

In the first half (FH) of the current year, 2003, the number of rating downgrades by ICRA declined while the number of upgrades increased slightly from the 2002 levels. The FH2003 performance of ICRA ratings marks a continuity with the trend of 2002, when the improvement in business environment was reflected in a decline in the number of ratings (in the long- and medium-term categories) downgraded, and an increase in the number of upgrades. The continuity of the trend in rating performance indicates the impact of a continuing recovery phase and the consequent improvement in corporate performance across various industries.

Declining trend in the ratio of downgrades to upgrades continues in 2003

As compared with 20 rating downgrades by ICRA in FH2001 and 16 in FH2002, there were 10 rating downgrades in the half-year ended June 2003. There was also an increase in the number of rating upgrades to five during FH2003, as against three in FH2002 and only one in FH2001.

Figure 1: RATING REVISIONS (LONG- & MEDIUM-TERM) SINCE 1998



ICRA considers both medium- and long-term rating revisions to calculate the inverse credit ratio (inv-CR), which is the ratio between downgrades and upgrades

In 2002, while there was a decrease in the number of rating downgrades there was also an increase in the number of upgrades. This led to a sharp decline in the inv-CR during the year. The inv-CR in 2002 was the lowest for the five years till then. However, during FH2003, this ratio fell further. Significantly, the inv-CR had also experienced a dip in 2000, a period of short-lived recovery preceding the slowdown of 2001.

The inv-CR both during FH2000 and 2000 was higher than the inv-CR during 2002 and FH2003. This perhaps points to the sustainability of the current recovery phase.

Of the five entities upgraded in FH2003, four belong to the auto/auto-ancillary sectors.

Of the 10 entities whose long-/medium-term debt ratings were downgraded; three are from the non-banking finance companies (NBFC) and financing institution sectors, and two from the tractor industry. The rest belong to other diverse industries, including, among others, hotels, electronics, and glass.

During FH2003, only one ICRA long-/medium-term rating moved from the investment category into the non-investment (NI) category. There were seven such rating movements during FH2002.

Improvement in stability rates of ICRA's long-term investment grade ratings

ICRA has been following the behaviour of all its accepted long-term ratings, since inception. All ratings outstanding at the beginning of each year are tracked over different time horizons and the pattern of their retention (stability) and their movement to higher/lower categories (transition) studied. The stability percentages presented in *Table 1* indicate the proportion of ratings that maintained their position in the same rating category as at the beginning of each year, over a one-year horizon.

The stability percentages of ICRA's long-term investment grade ratings in 2001 (over a 12-month horizon), 2002 (performance over a six-month and 12-month horizon), and 2003 (over a six-month horizon), and the one-year averages since inception (1992-2003) are as follows:

Table 1: STABILITY INDICATORS OF LONG TERM INVESTMENT CATEGORY RATINGS*(all nos. in %)*

	Stability 2001	Stability 2002	1-yr Avg. Stability (since inception)	Stability FH2003
LAAA	87.1	100	94.08	100
LAA	80.0	93.9 (3.03)	86.7 (1.95)	100
LA	69.4	80.8 (3.85)	83.17 (1.65)	87
LBBB	90.9	87.5	85.21(0.7)	93

NI: Non-investment grade; ratings below LBBB- (viz. LBB+ till LD)

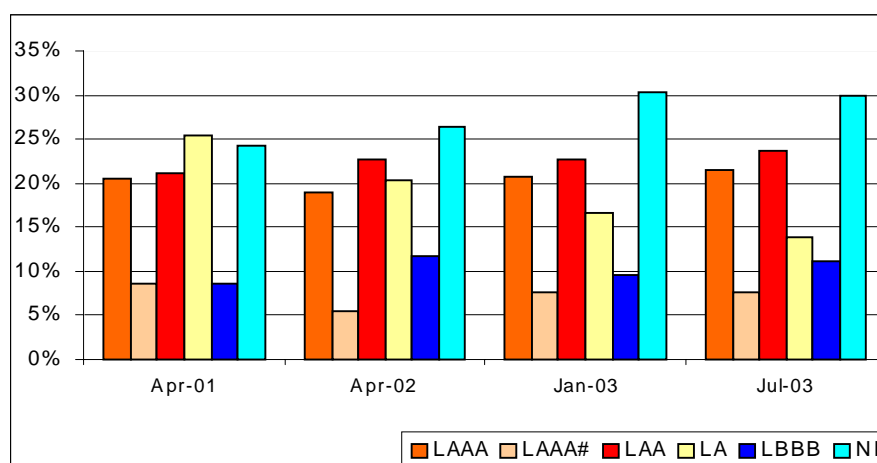
The categories of LAA, LA and LBBB include ratings with the suffix "+" or "-" within the respective categories. Thus, for instance, the category LAA includes three ratings: LAA+, LAA, and LAA-.

Figures in red indicate % of transition to a higher category or upgrades

The highlights of the performance of ICRA's long term investment grade ratings during FH2003 are as follows:

- During FH2003, all ICRA long-term investment grade ratings further improved their stability performance over 2002. Even in 2002, ICRA's long-term investment grade ratings had exhibited a distinct improvement as compared with the previous year 2001 (the exception being the lowest investment grade category of "LBBB" which had a lower stability rate in 2002 as compared with 2001). Also, during 2002, the LAA and LA category ratings witnessed upgrades into the next higher category, a phenomenon that was absent in 2001.
- All LAAA and LAA ratings, as of January 2003, maintained their ratings during the next six months.
- Both the LA and LBBB rating categories witnessed higher stability in FH2003 as compared with 2002. There was no movement of LA ratings to the NI category during FH 2003.
- The only long-term investment grade rating that moved into the NI category in FH2003 (as compared with five such movements during 2002) was from the LBBB category (the lowest investment grade rating).

Category-wise distribution of long-term ratings (outstanding) maintained

Figure 2: CATEGORY WISE DISTRIBUTION OF ICRA LONG TERM RATINGS

LAAA# indicates the percentage of outstanding LAAA ratings of entities other than Banks and Public Sector Undertakings (PSUs)

The category-wise distribution of ICRA's long-term ratings outstanding as at the beginning of July 2003 was almost identical to the distribution in January 2003. Both LAAA and LAA ratings outstanding as on July 2003 increased slightly as compared to January 2003, and stood at almost 22% and 24%, respectively. Banks/Financing Institutions and strong PSUs continued to account for a significant portion (over 64% as of July 2003) of the LAAA ratings outstanding.

The decrease in the percentage of LA ratings outstanding to about 14% as in July 2003 from about 17% as in January 2003 was mainly because of the revision of some LA ratings into the LBBB category. The same also explains the slight increase in the percentage of LBBB ratings outstanding to over 11% as in July 2003 from almost 10% as in January 2003.

The percentage of ICRA long-term ratings outstanding in the NI category, which had been increasing till January 2003, remained almost at the same level of around 30% as in July 2003.



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