# Rating Trends 2016-17

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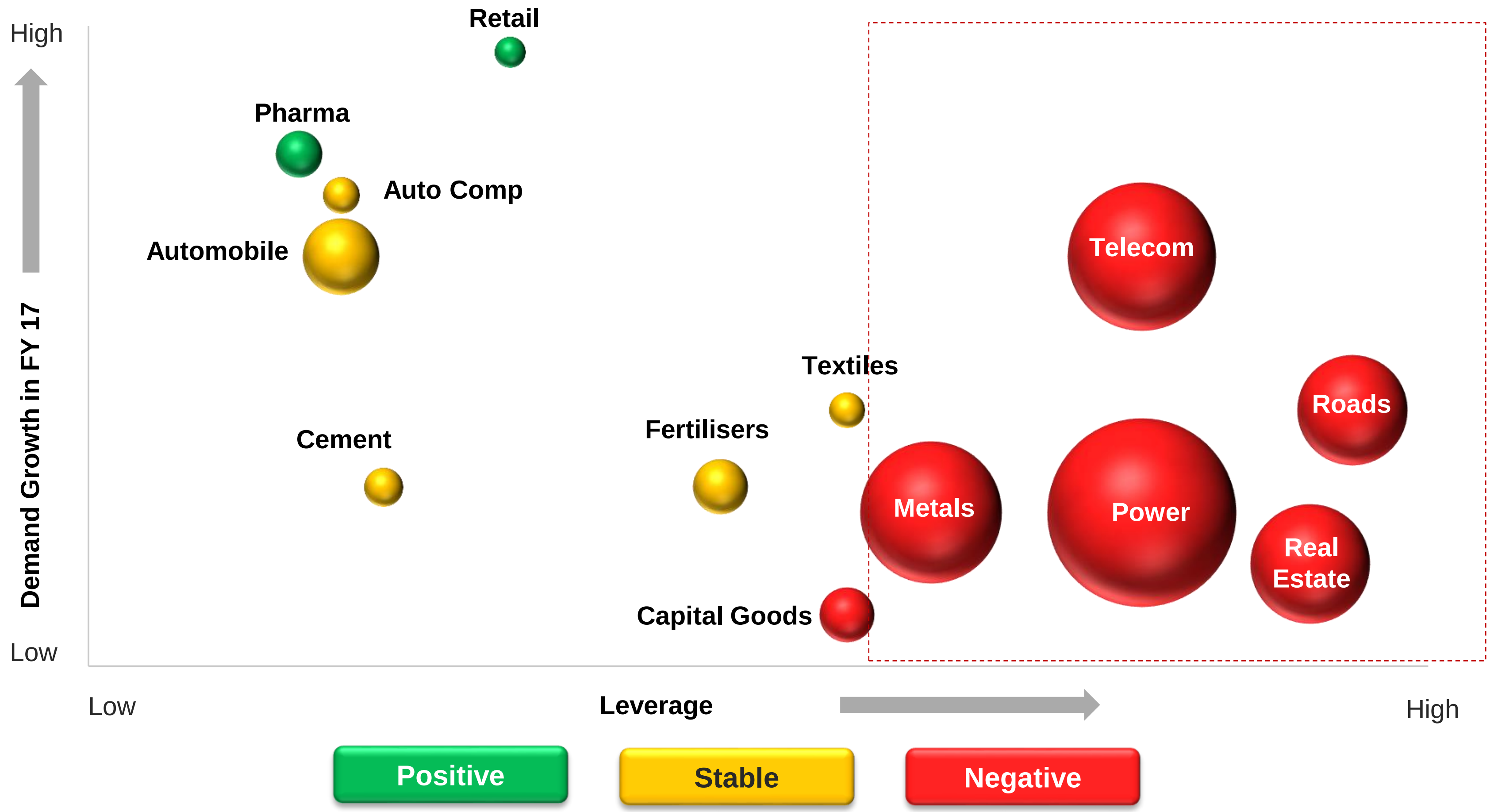
# Divergence in credit quality to continue in 2016-17

**Negative outlook for investment-linked & commodity sectors; Stable to Positive for consumption-oriented sectors**




Size of the bubble depicts relative debt in the sector for CRISIL Rated Portfolio

# What can drive rating changes for consumption-linked sectors?

| Better demand | Prudent WC management | Modest debt levels |
|---|---|---|

**Pharma**

- Strong demand growth led by domestic formulations & rebound in exports
- Geographic diversity, sustaining profitability, reducing working capital to drive upgrades
- Increased scrutiny from US FDA can trigger rating changes

**Auto**

- More broad-based growth in volumes expected & profitability expected to remain stable
- Rating outlook largely stable driven by better demand & comfortable cash flows
- For auto-comp, capex intensity to regulate upgrades, despite improving performance

**Cement**

- Utilisation rates expected to improve due to pick up in demand & slow capacity addition
- Rating outlook largely stable driven by moderate demand growth
- M&As could drive rating changes, funding mix of acquisitions key monitorable

# What can drive rating changes for investment-linked & commodity sectors?

| Weak demand | Realisation pressures | High indebtedness |
| --- | --- | --- |

**Power**

- While UDAY will boost discom liquidity, long-term PPAs to pick-up only by end FY17
- Merchant capacities or aggressively bid-out projects could see rating downgrades
- Aggressive bids in renewables and liquidity management will be key rating drivers
- Post commissioning stability for transmission projects can drive upgrades

**Roads**

- Despite pick up in traffic growth, operational projects to be impacted by low toll hikes
- Lack of timely sponsor support to bridge cash-flow mismatch could lead to downgrades
- Refinancing by capital market and IDF-NBFCs for stable projects to be credit positive

**Real Estate**

- No substantial jump in sales in this fiscal to support both construction & debt servicing
- Improving liquidity by refinancing, equity, non-core asset sale critical to sustain ratings

# What can drive rating changes for investment-linked & commodity sectors?

| Realisation pressures | High indebtedness |
| --- | --- |

**Metals**

- Aluminum prices to continue to decline; capacity additions limit price increase in steel
- Ratings may be downgraded on further decline in profitability & lack of deleveraging
- Timely liquidity support from promoters or refinancing - key for credit profiles

**Telecom**

- Higher data subscribers to drive revenue growth, but competition could reduce margins
- Capital spending for spectrum, leveraged balance sheets & margin pressures to drive rating changes

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