Movement of CARE Ratings' Industry Confidence Index

Q3 (FY2021) I Industry Research

What is CICI?

CARE Ratings Industry Confidence Index (CICI) is a flagship product developed by the Industry Research team of CARE Ratings, with an intention to gauge the level of confidence across various industries in a particular period. This index is inputted with data from 47 industries ranging across sectors such as manufacturing, services, infrastructure, commodities, etc.

The frequency of calculating CICI index values is once at the end of every quarter, on availability of financial results of every industry. Such quarterly financial results are compared on a YoY basis for computing change in scores used in the index.

For this purpose 6 distinct parameters have been shortlisted for computing the index scores. These 6 parameters are grouped under three major heads: financial performance, credit worthiness and expectation. The 'financial performance' includes objective scores based on financial results and industry dynamics in a particular quarter. The 'credit worthiness' aspect of an industry is measured using the Modified Credit Ratio (MCR) computed for all companies in an industry that are rated by CARE Ratings in the said quarter, while the 'expectation' includes an objective score for outlook of near future.

Parameters used for scoring CICI:-

I. Financial performance:

- Revenue growth
- Operating profit margin
- Pricing power
- Interest coverage

II. Credit worthiness: -

CARE Ratings' Modified Credit Ratio (MCR)

III**. Expectation: -**

- Outlook for near future

Why have these parameters been chosen?

1. Revenue growth signifies how the industry has fared in terms of improvement, decline or staying stable.
2. Operating margin is reflective of how the companies in a particular industry have fared at the operational level and throws lights on efficiency and cost control.
3. Pricing power is crucial especially during downturns in business cycles and hence adds to the confidence level of an industry. For computing this parameter, Wholesale Price Index, Consumer Price Index or any relevant industry pricing benchmarks have been used.
4. Interest coverage ratio is reflective of debt servicing ability and improvement or decline in finance costs for the industry.
5. MCR tells us whether various players in the industry have been downgraded or upgraded or maintained the same credit rating. A high MCR implies more upgrades in an industry and hence gives confidence about the credit worthiness of players in the industry.
6. Outlook for an industry is given after considering various global and domestic factors which could have a bearing on the industry's growth performance for the near future. The factors considered for giving an outlook include, but is not limited to, currency movements, demand - supply dynamics, raw material prices, global and domestic policy changes, capacity addition and utilization, competitive intensity, trade movement, etc. Outlook is the only subjective element among all parameters used in calculation of scores for this index.

Methodology

The 'net response method' is used here where the internal Survey is with analysts tracking these 47 industries provide answers. The analysts post their views on how their sector looks like on the chosen parameters. The response is 'improved', 'worsened' or 'remained same' based on predefined criteria. The shares of responses under each parameter are then tabled for the three confidence levels.

The Index is then calculated as follows:

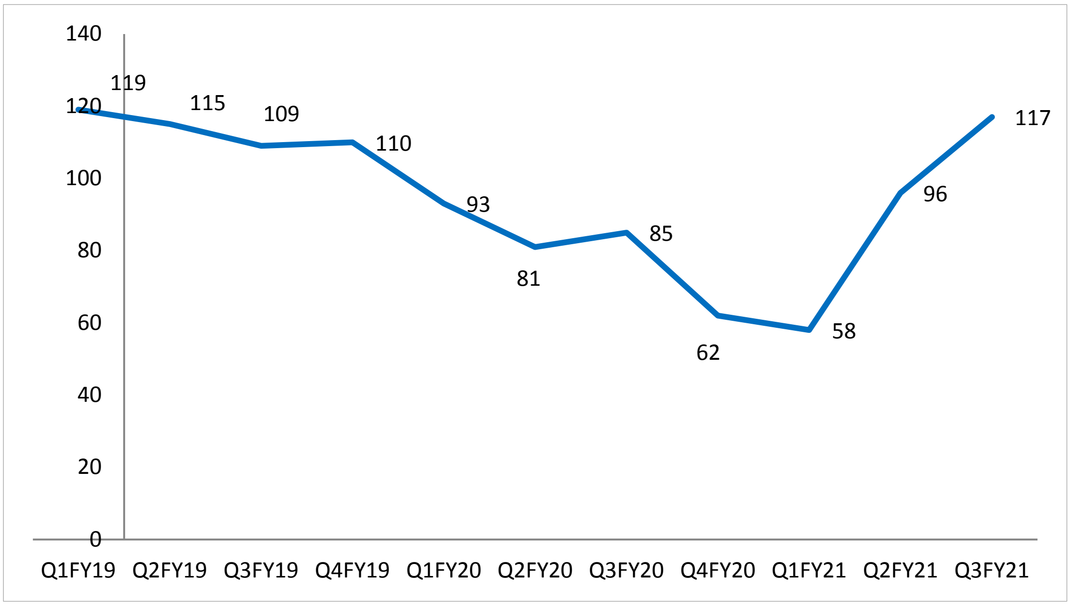
Step 1: Net Responses for each parameter = Share of 'improved' – Share of 'worsened'

Step 2: Confidence Index = 100 + Average of Net responses

Therefore, in this Survey where 6 variables are examined, and a net response is calculated for each one of these variables and the Confidence Index would be 100+ (average net responses for the six variables). Theoretically it can range from 0 (all variables are worsening) to 200 (all variables are improving) After analysing the industry scenario, a response for each parameter is given in the form of 'improved', 'remained same' or worsened'. Post which, the final score for the index for a particular quarter is calculated after considering inputs from all 47 industries. This final score would range between 0 and 200, where any score close to 0 signifies that all variables are worsening, while any score close to 200 means all variables are improving in the said quarter.

In this report we will see the performance of the index in Q3FY21:

Chart 1: CARE Ratings' Industry Confidence Index



On expected lines, the index moved further up to 117 points in Q3FY21, highest level in the last 9 quarters as India makes smart recovery from the Covid-19 pandemic.

The index went on a downward trajectory from FY19 onwards till the second quarter of FY20. The US-China trade war and Brexit had slowed down the pace of global economic growth and consequently impacted business activities in India. India also experienced slowdown due to the NBFC crisis and the implementation of GST during this period. However, after five successive quarters of de-growth the index made a small recovery in Q3FY20 and the index rose to 85 points, up from 81 points in Q2FY20. However the outbreak of the Covid-19 pandemic and the subsequent lockdown measures to contain the virus once again put breaks on the recovery and the index fell precipitously in Q4FY20 and Q1FY21 to 62 points and 58 points, respectively.

Thereafter, the gradual unlocking of the economy which began in the second quarter was aided by good monsoon season which lead to strong recovery in the agriculture, manufacturing and utilities sectors and the index bounced back to 96 points in Q2FY21. Festive season demand and pent-up demand drove the index further up to 117 points in Q3FY21.

The following table is a summation of the number of responses in each of the three categories (improved, remained same and worsened) for all parameters, calculated for all 51 industries in Q3-FY21.

Table 1: Summary of all responses for 47 industries (Q2FY21)

	Revenues	Operating margin	Prices	Modified Credit Ratio (MCR)	Interest coverage ratio	Outlook	Total
Improved	34	36	23	9	35	22	159
Remained same	3	3	11	7	3	16	40
Worsened	14	12	17	35	13	13	107
Total Responses	51	51	51	51	51	51	306

From the above table it can be seen that the share of 'improved' responses were higher than 'worsened' responses. While the share of improved response were at 52% or 159 out of 306, those of worsened responses were at 35% or 107 out of 306. Neutral responses were at 13% or 40 out of 306. Not just that, the share of worsened responses saw a contraction during the quarter compared to its share in Q2FY21 where it was at 126 responses and Q1FY21 were it had spiked to 179 responses. Also, the contribution of improved responses saw an expansion compared to its share in Q2FY21 at 114 responses and Q1FY21 where just 61 responses were positive. The share of neutral responses however remained constant at 43 responses.

There has been a stark turnaround in the responses for 'operating margin' and 'pricing' parameters in Q3 when compared to Q2 as Q2 saw majority of responses for these in the 'worsened category' which now falls in the 'improved category'. Interest coverage and outlook parameters had majority responses in the improved category while the ratings for most industries are still in the worsened category (MCR ratio less than 1%) however there has been improvement in responses for improved category from 0 to 9 in Q3 compared with Q1.

In the below table we have segregated industries into 2 broad categories – better off and worst off. In the better off category, the response for majority parameters i.e 4 out of 6 parameters were 'improved' while in the worst off category – 4 out of 6 parameters of the particular industry showed 'worsened' response.

Industries better off (majority i.e more than 4 parameters falling under improved category)	Industries worst off (more than 4 parameters in worsened category)
Automobiles & ancillaries	Textiles
Metals	Roads & Highway
Cement	Gems and Jewellery
Agrochemicals	Retail
Drugs and pharma	Crude Oil
IT & ITeS	Real Estate
Consumer Durables	Paper and Paper Products
Ceramic tiles & Sanitary ware	Hospitality & Tourism
Power generation	Refinery & Petro-Products
Fertilizers	Films
Mining	Banking
Paints	NBFCs
FMCG	Education
Television	Petrochemicals

Apart from the above mentioned industries, it is also to be known that Shipping industry was the only sector that performed badly in all categories followed by Aviation, Paper and Gems & Jewellery sectors that performed worst in 5 out of 6 categories.

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