CRISIL RATINGS

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CRISIL RatingsRoundup

Credit ratio shows early signs of recovery: CRISIL

However, systemic credit quality is still not out of the woods

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Executive Summary

Corporate India's credit quality is showing early signs of recovery, as indicated by CRISIL's credit ratio (ratio of number of upgrades to number of downgrades) of 1.64 times for the first half (H1) of 2014-15 (refers to financial year, April 1 to March 31). Upgrades exceeded downgrades in H1 2014-15, with 741 upgrades as compared to 451 downgrades. Firms with low debt exposure primarily witnessed positive trends in credit quality. Despite the credit ratio exceeding 1 time, the ratio of the quantum of debt of the firms upgraded, to that of those downgraded (excluding financial sector players) remained weak at 0.59 times during the same period, reflecting continued pressure on systemic credit quality. CRISIL believes that the improvement in credit quality will be gradual and any significant recovery will be contingent to a sustainable increase in investment demand.

The improvement in business-related factors was the key driver for 60 per cent of the upgrades. This is visible for export-linked sectors and non-discretionary consumer segments such as traders, packaged foods, pharmaceuticals, textiles and agricultural products, which continue to have the highest upgrade rates.

CRISIL's analysis indicates that there is a sharp disparity in credit quality trends based on leverage, profitability, and liquidity. Firms with better profitability (return on capital employed [RoCE] exceeding 15 per cent), witnessed three upgrades for every downgrade. Among firms with low leverage (debt-to-earnings before interest, tax, depreciation and amortisation [EBITDA] ratio below 2.5 times), more than three firms were upgraded for every downgrade in H1 2014-15.

In contrast, weak liquidity, and pressure on profitability were key drivers for downgrades. Firms with high leverage (debt-to-EBITDA above 4 times) were subject to significant credit quality pressures as evident from their credit ratio below one during first half of 2014-15. Players operating in the construction, engineering and capital goods, and automobile (auto) ancillary sectors had higher downgrade rates than their counterparts in other sectors.

CRISIL believes that the credit quality buoyancy in the overall economy is still some time away; for that to happen, investment demand, which depends on the extent to which the central government pushes big ticket policy reforms, needs to substantially increase.

CRISIL expects a gradual improvement in the credit ratio over the medium term, as economic growth records mild recovery from the lows of the two years through March 31, 2014. The impact of the monsoons, progress by indebted corporates in reducing their external debt through asset sales or equity infusion, demand outlook in the economy, and the extent of policy reforms by the Government of India, will remain key monitorables.

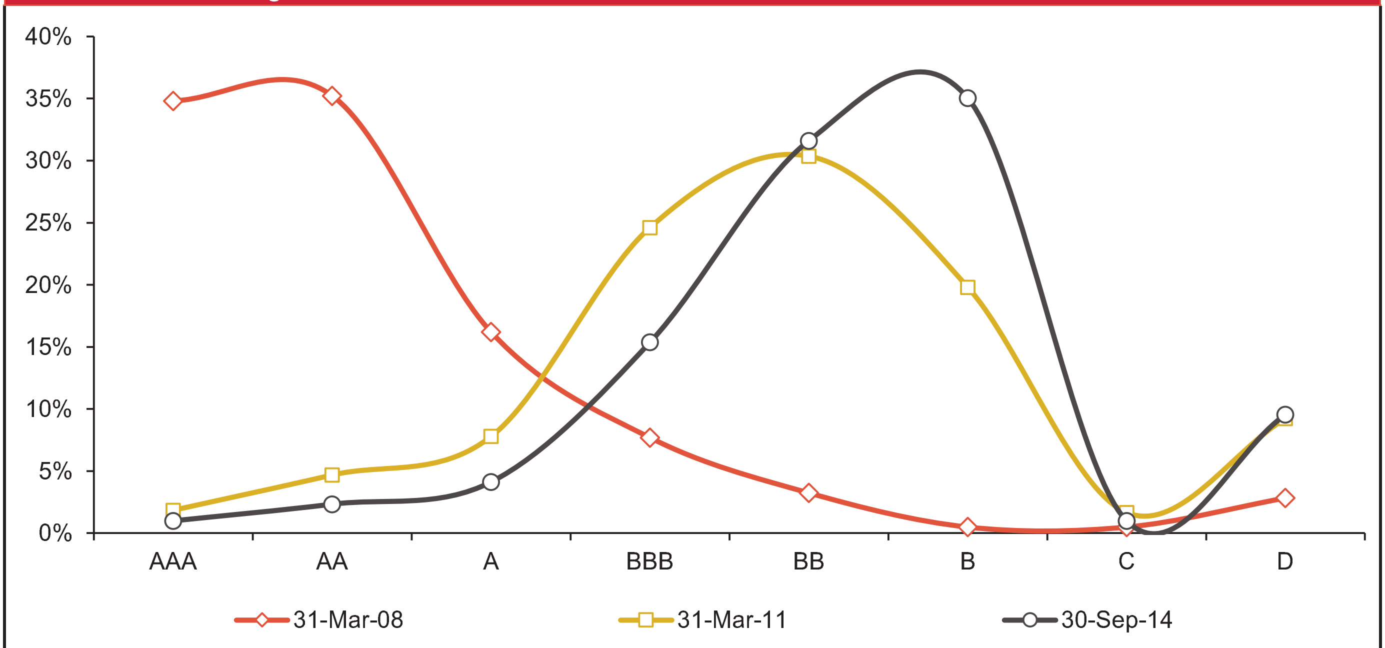
About CRISIL's Ratings Round-Up

CRISIL's Ratings Round-Up is a semi-annual publication that analyses CRISIL's rating actions, and traces linkages between these actions and underlying economic trends and business factors. A credit rating is an opinion on the likelihood of timely debt repayment; therefore, an analysis of rating actions in a large and diverse portfolio of rated firms is an adequate indicator of economic prospects. The current issue analyses CRISIL's rating actions over the six months ended September 30, 2014.

CRISIL's portfolio stabilises: Outstanding ratings sustained at around 13,000

CRISIL's portfolio of outstanding ratings has stabilised over the 3.5 years ended September 30, 2014, as indicated by a portfolio size of around 13,000 outstanding ratings. Since March 31, 2011, the rating median stayed at 'CRISIL BB', down from 'CRISIL AA' as on March 31, 2008. In recent years, more than 75 per cent of the ratings were either in the 'CRISIL BB' or lower rating categories (refer to Chart 1).

Chart 1: CRISIL's rating distribution

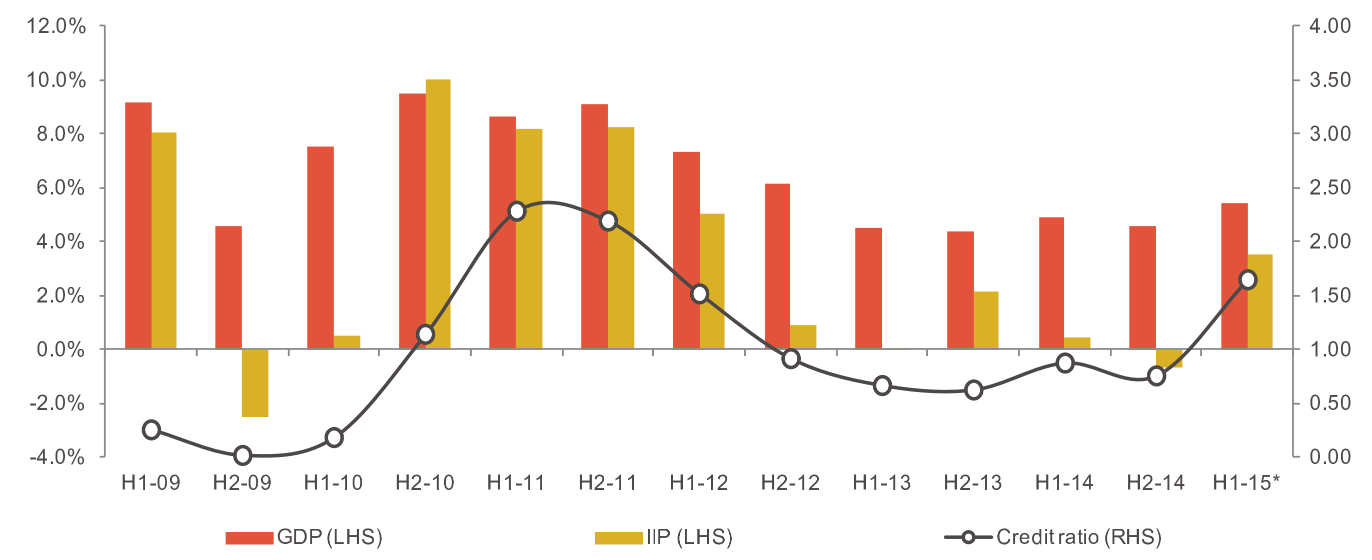


Source: CRISIL

Corporate India's credit quality shows early signs of recovery

Upgrades outnumbered downgrades during H1 2014-15. The credit ratio at 1.64 times for H1 2014-15, exceeded 1 time, for the first time in 30 months.

Chart 2: Credit ratio trends with IIP and GDP



*Gross Domestic Product (GDP) and Index of Industrial Production (IIP) growth rates are for April to June 2014

(For a complete list of rating actions in H1 2014-15, refer to Annexures II-b and II-c under 6.2.2 of 'Regulatory Disclosures' on the CRISIL website)

Source: CRISIL

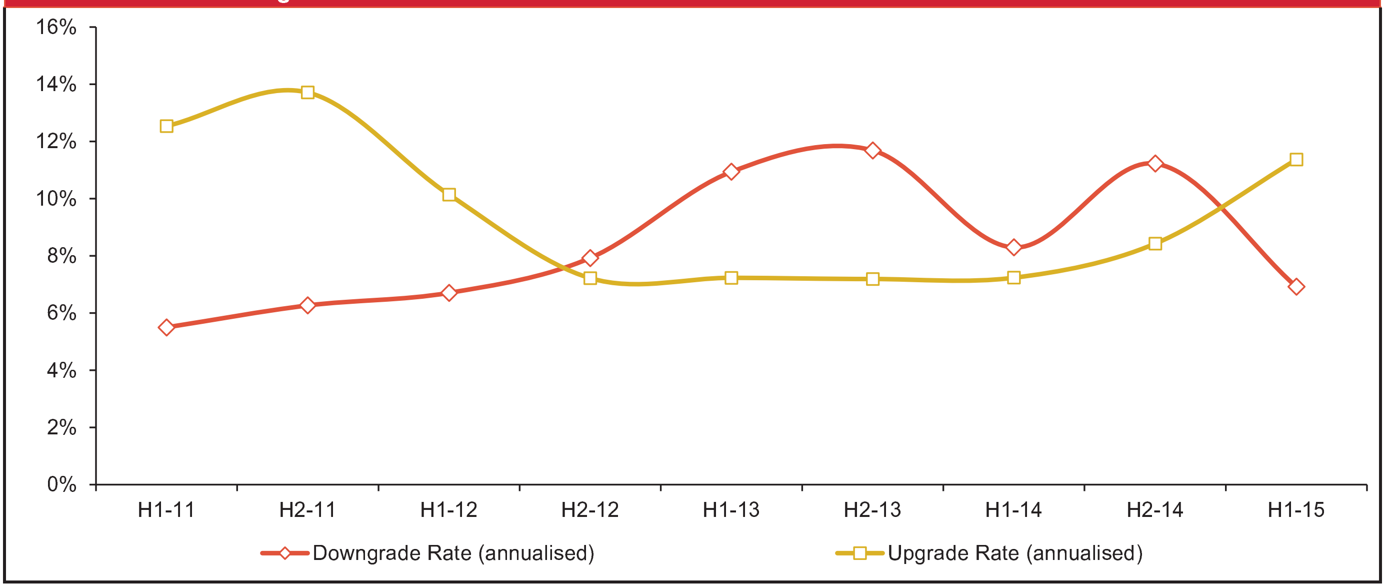
CRISIL's credit ratio frequently exhibits a correlation with economic indicators such as the IIP and GDP. Slow growth in GDP and IIP led to a credit ratio below 1 time over the 2.5 years ended March 31, 2014. However, the credit ratio soared to 1.64 times in H1 2014-15, with an improvement in IIP and GDP growth. Nevertheless, the recovery is not buoyant, as indicated by the ratio of the quantum of debt of firms upgraded to that of those downgraded, below 1 time, over the six months ended September 30, 2014. Recovery is restricted to firms with low debt as compared to their counterparts with higher debt.

Significant decline in downgrade rate in H1 2014-15; upgrade rate gains momentum

CRISIL's portfolio of ratings witnessed 741 upgrades vis-à-vis 451 downgrades in H1 2014-15. The upgrade rate was around 11 per cent in H1 2014-15, with almost a sixth of the upgrades from the default category. More than half of the upgrades were driven by business related factors, such as enhanced scale of operations, healthy demand outlook and improvement in efficiency.

Growth in the Indian economy improved in Q1 2014-15 (refers to the quarter, April to June 2014) and stood at 5.7 per cent as compared to 4.7 per cent during 2013-14. The improvement is primarily attributable to the performance of the agricultural and industrial sectors. Growth in exports exceeded 10 per cent for the past four quarters, thus supporting manufacturing output. Besides, a mild increase in domestic investments supported growth in the first quarter. Furthermore, an upswing in demand for vehicles and consumer durables, as indicated by the Reserve Bank of India's (RBI's) consumer confidence survey, hinted to a better Q2 (refers to the quarter, July to September 2014).

Chart 3: Trends in rating actions



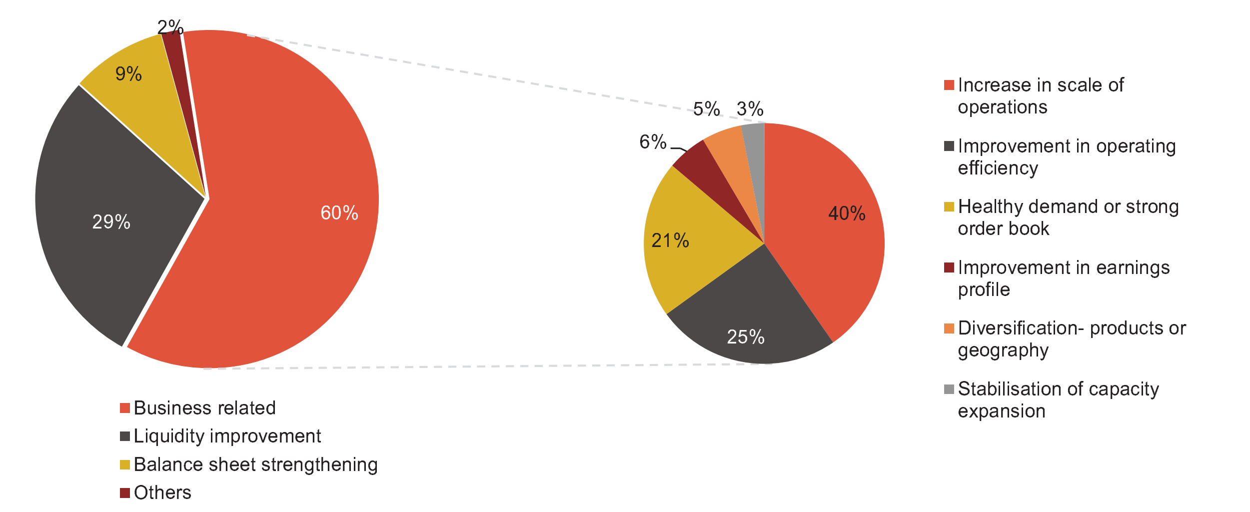
Source: CRISIL

The downgrade rate at 6.9 per cent in H1 2014-15, was significantly lower than the range of 8 to 12 per cent during the two years through March 31, 2014; defaults contributed to more than 40 per cent of the downgrades. Over three-fourths of the downgrades occurred in the 'CRISIL BB' rating category and below.

Improvement in credit quality restricted to firms with high profitability, enhanced liquidity, and low leverage

CRISIL's analysis of rating actions indicates that around 60 per cent of the upgrades were largely driven by improved business-related factors, with enhanced scale of operations and healthy demand outlook contributing to around 60 per cent; and increase in operating efficiency to one-fourth, during H1 2014-15. Enhanced liquidity constituted 29 per cent of the upgrades, and balance sheet strength for another 9 per cent.

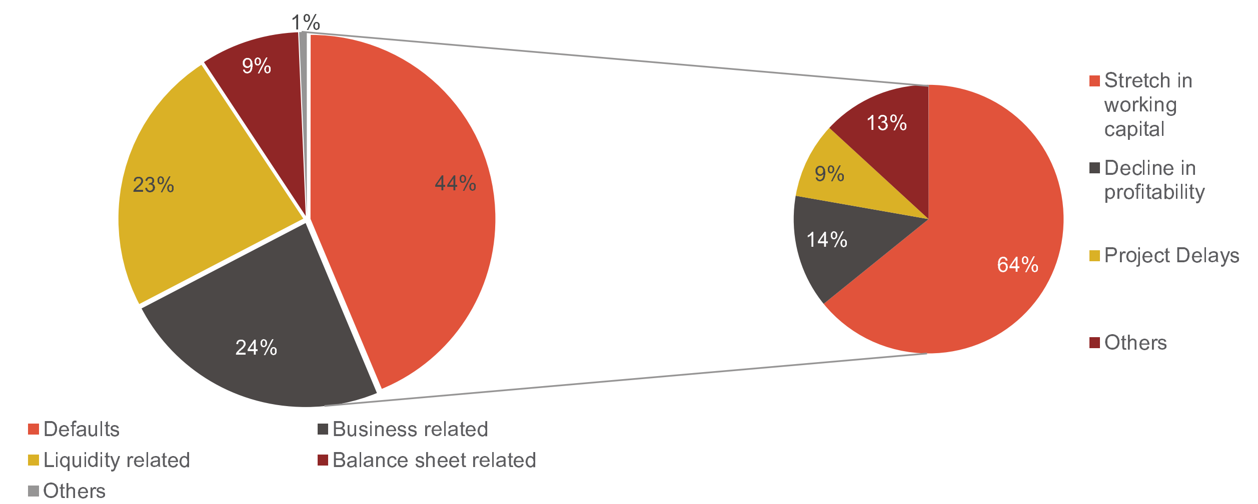
Chart 4a: Reasons for Upgrades



Source: CRISIL

In contrast, more than 67 per cent of the total downgrades were primarily attributable to deterioration in liquidity; over 40 per cent of the total downgrades were to the default category, largely driven by weak liquidity because of stretched working capital cycle, or a decline in profitability or project delays.

Chart 4b: Reasons for downgrades



Source: CRISIL

CRISIL analysed rating actions on the firms rated, based on their RoCE (an indicator of operating efficiency), debt-to-EBITDA ratio (an indicator of leverage), and gross current assets (GCAs expressed as days of operating income; an indicator of liquidity).

Table 1: Analysis of credit quality trends based on debt-to-EBITDA

Debt/EBITDA	Debt of upgraded firms to debt of downgraded firms	Credit ratio
Below 2.5 times	8.38	3.27
Between 2.5 and 4 times	3.60	2.57
Above 4 times	0.16	0.96

Source: CRISIL

Based on leverage, firms with a lower debt-to-EBITDA ratio displayed significantly high value (in terms of the ratio of the quantum of debt of firms upgraded to that of those downgraded) exceeding 8 times in H1 2014-15. In contrast, firms with higher debt-to-EBITDA exhibited a considerably low value at 0.16 times, over the period. Around 35 per cent of the upgraded firms with a debt-to-EBITDA ratio in the highest bucket were either from the default category or contracted primarily working capital debt.

Profitability also emerged as a strong differentiator of credit quality. Firms with RoCE exceeding 15 per cent recorded a credit ratio and ratio of the quantum of debt of firms upgraded to that of those downgraded, of around 3.2 times each. Firms with RoCE below 10 per cent recorded a low ratio of the quantum of debt of firms upgraded to that of those downgraded of less than one-fourth, restating that the improvement in credit quality is restricted to firms with better profitability than their peers.

Table 2: Analysis of credit quality trends based on RoCE

RoCE	Debt of upgraded firms to debt of downgraded firms	Credit ratio
Greater than 15%	3.18	3.16
Between 10%-15%	1.36	1.96
Lower than 10%	0.23	1.05

Source: CRISIL

Liquidity, as indicated by length of the working capital cycle, significantly impacts the credit quality of firms. Those with long working capital cycles or GCAs above 240 days saw four downgrades for every three upgrades, whereas those with prudent working capital management (GCAs below 120 days) saw three upgrades for every downgrade.

Table 3: Analysis of credit quality trends based on GCAs

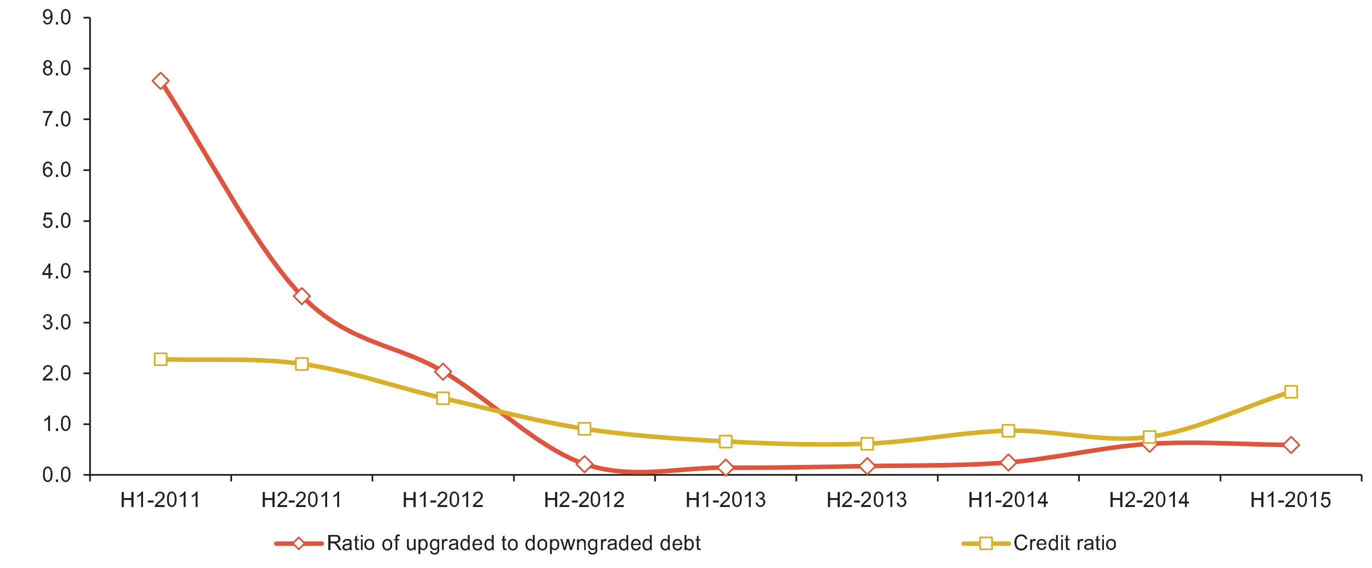
GCA days	Debt of upgraded firms to debt of downgraded firms	Credit ratio
Lower than 120	4.60	3.01
Between 120-240	0.38	2.01
Greater than 240	0.45	0.72

Source: CRISIL

Credit quality not buoyant despite high credit ratio, as indicated by a high quantum of downgraded debt

A credit ratio of more than 1 time should not be interpreted as a sign of buoyancy in credit quality. CRISIL would like to highlight that the ratio of the quantum of debt of firms upgraded to that of those downgraded, still remains below 1.

Chart 5: Trends in rating actions



Source: CRISIL

CRISIL believes that for any sustainable improvement in credit quality, investment demand needs to improve substantially, and depends on the extent to which the central government pushes reforms such as coal block allocations and the land acquisition bill. Additionally, the RBI's stand of holding on to interest rates restricts any substantial push to demand from monetary policy actions, in the near term. Thus, CRISIL believes that the improvement in credit quality will be gradual and restricted to firms with low leverage, healthy profitability, and prudent working capital management.

Interest rates likely to remain high

Consistent with its disinflationary stance, the RBI has maintained the repo rate at 8 per cent since January 2014; no change is expected until March 2015. Furthermore, asset quality concerns could limit reductions in banks' lending rates. Aggregate bank credit growth slowed down to 10.6 per cent year-on-year (y-o-y) in August 2014, as compared to 17.1 per cent in August 2013, with increased risk aversion, given the deterioration in the asset quality of public sector banks (PSBs), and subdued demand for credit.

Table 4: Trends in industrial activity and funds mobilisation

Quarter ended	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Bank Credit Growth (%)	19.5	18.7	16.5	15.2	15.5	13.7	17.8	14.5	14.6	13.1	10.6[@]
Repo rate (%)	8.50	8.00	8.00	8.00	7.50	7.25	7.50	7.75	8.00	8.00	8.00
Credit spreads (%)	0.8	0.7	0.9	0.6	0.7	0.6	0.9	0.5	0.6	0.4	0.4
External commercial borrowings (ECB) mobilised (Billion USD)	9.1	8.1	6.2	6.8	10.9	5.6	9.4	8.7	9.6	6.5	4.2[@]
Equity Mobilised (Rs. Billion)	67.2	336.3	171.3	129.7	142.3	335.1	120.1	113.4	400.3	210.5	143.2[@@]
IIP Growth (% YoY)	0.6	-0.3	0.4	2.1	2.2	-1.0	1.9	-0.8	-0.6	4.2	NA
GDP Growth (% YoY)	5.8	4.5	4.6	4.4	4.4	4.7	5.2	4.6	4.6	5.7	NA

#AAA spread over 10 year G-Sec

@ Updated as of August 2014

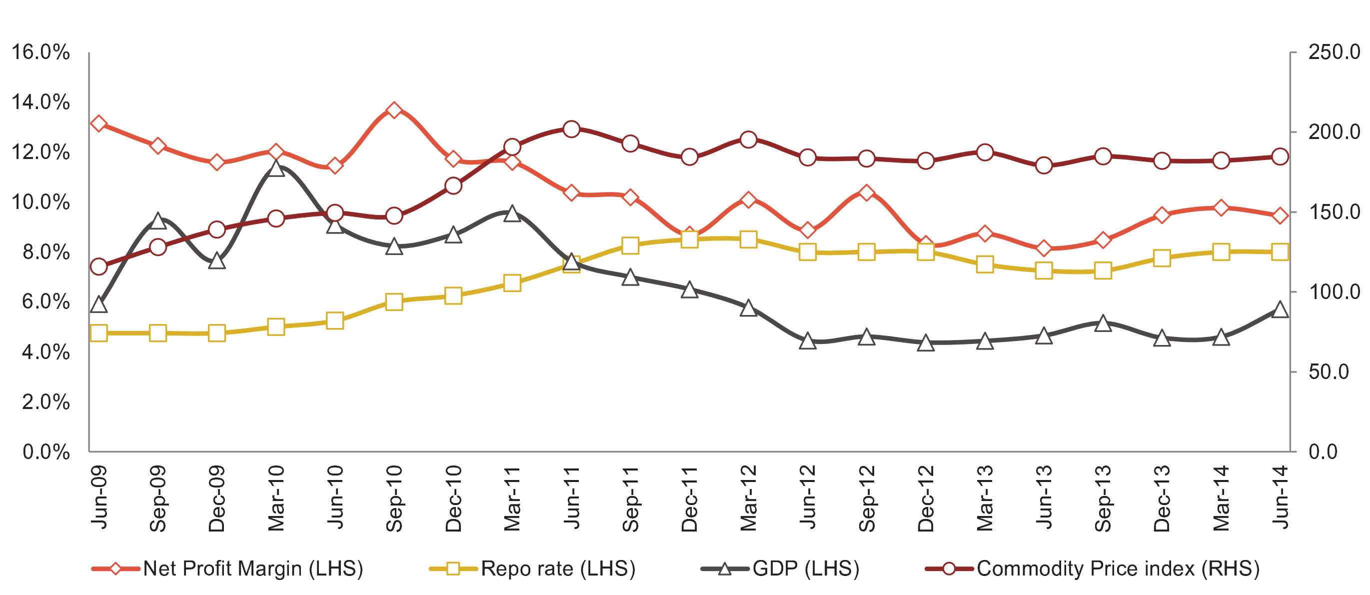
@@ Updated as of July 2014

Source: CRISIL

Improved profitability, leveled input prices, and high interest rates

CRISIL's analysis of the aggregate financial performance of 408[1] firms listed in the S&P CNX 500 revealed that the net profit margin (NPM), that began to improve since September 2013 and stood at around 9.5 per cent for Q1 2014-15. Steady commodity prices and exchange rates have lent predictability to input costs for corporate India. The commodity price index[2] (in dollar terms), which has been stable over the nine quarters ended June 2014, is showing signs of softening, with falling crude prices. Although interest rates could remain high at least till March 2015, CRISIL believes that the NPM of Indian companies will improve over the medium term, supported by favourable commodity prices, improved domestic and international demand and enhanced capacity utilization.

Chart 6- Trends in net profit margins and commodity prices



Source: CRISIL

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[1] *These listed companies have reported their results for the quarter ended June 30, 2014, and have remained in the S&P CNX 500 for the past 18 quarters. The three oil marketing companies (OMCs) have been excluded, because their reported numbers will skew the sample. Companies from the financial sector have also been excluded from the sample.*

[2] *As published by International Monetary Fund [IMF]*

Credit quality of export linked sectors to improve driven by revival in USA and Euro Zone

CRISIL believes that the Indian economy will record 5.5 per cent growth in 2014-15, as compared to 4.7 per cent in 2013-14. Despite an expected slowdown in the agricultural sector to 1 per cent in 2014-15 from 4.7 per cent in 2013-14, with a deficit and uneven monsoons, the overall growth rate could improve with a sharp spike in industrial GDP to 3.6 per cent from 0.4 per cent, over the period.

Economic recovery, as indicated by the growth rates for the Euro zone and the United States, augurs well for export-linked sectors. Exports grew by 11.5 per cent in Q1 2014-15 as compared to the decline of 2.8 per cent in Q1 2013-14. With medium term stability in currency, interest rates and oil prices, the revival of the manufacturing sector could ease pressures on corporate credit quality.

Table 5: Trends in GDP growth rates Europe, UK and USA

Countries	2012	2013	2014(P)	2015(P)
Euro zone	(0.6)	(0.4)	1.0	1.5
United Kingdom	0.3	1.7	2.7	2.4
USA	2.8	1.9	2.5	3.2

Source: Standard & Poor's

Banks' asset quality pressures to peak in 2014-15

CRISIL believes that the pressure on asset quality will persist with a marginal improvement expected by March 31, 2015. The interplay of several factors will determine the asset quality of banks. These include the extent of an upswing in industrial activity, and progress in the implementation of stalled projects along with increased collections and recovery efforts by banks. The gross non-performing assets (NPAs) in the banking system could be contained at around 4.0 per cent by March 2015, as compared to around 3.9 per cent as on March 31, 2014, with the moderation in slippages and sale of NPAs to asset reconstruction companies (ARCs). CRISIL believes that banks will restructure incremental debt of Rs.1.2 trillion in 2014-15, driven by continued stress in the power and construction sectors, and the withdrawal of regulatory forbearance for restructured exposures from March 2015.

The RBI guidelines on revitalisation of distressed assets, issued in January 2014, could have a bearing on the quantum of debt restructured in the near term, after processes related to the formation of the joint lenders forum (JLF) are streamlined. The sale of assets to ARCs could be Rs.400 billion in 2014-15, as compared to Rs.200 billion in 2013-14. Based on these factors, CRISIL expects systemic weak assets[3] to increase to around 5.7 per cent of gross advances by March 31, 2015, after a sharp increase to around 5.3 per cent by March 2014, from 4.3 per cent as on March 31, 2013.

Table 6: Weak assets in banking sector

Year ended	Mar-12	Mar-13	Mar-14	Mar-15
Gross NPA (as a percentage of gross advances)	2.9%	3.3%	3.9%	4.0%
RSA (as a percentage of gross advances)	4.8%	5.1%	5.2%	4.8%
RSA ex-SPUs (as a percentage of gross advances)	3.4%	3.5%	4.0%	4.2%
Weak Assets(as a percentage of gross advances)	3.9%	4.3%	5.3%	5.7%
Gross Advances (Rs. Billion)	**49,022**	**59,880**	**68,800**	**80,500**

Source: CRISIL

[3] According to CRISIL's definition, weak assets include gross NPAs plus 30 per cent of restructured standard assets (excluding those of state power utilities) plus 75 per cent of security receipts

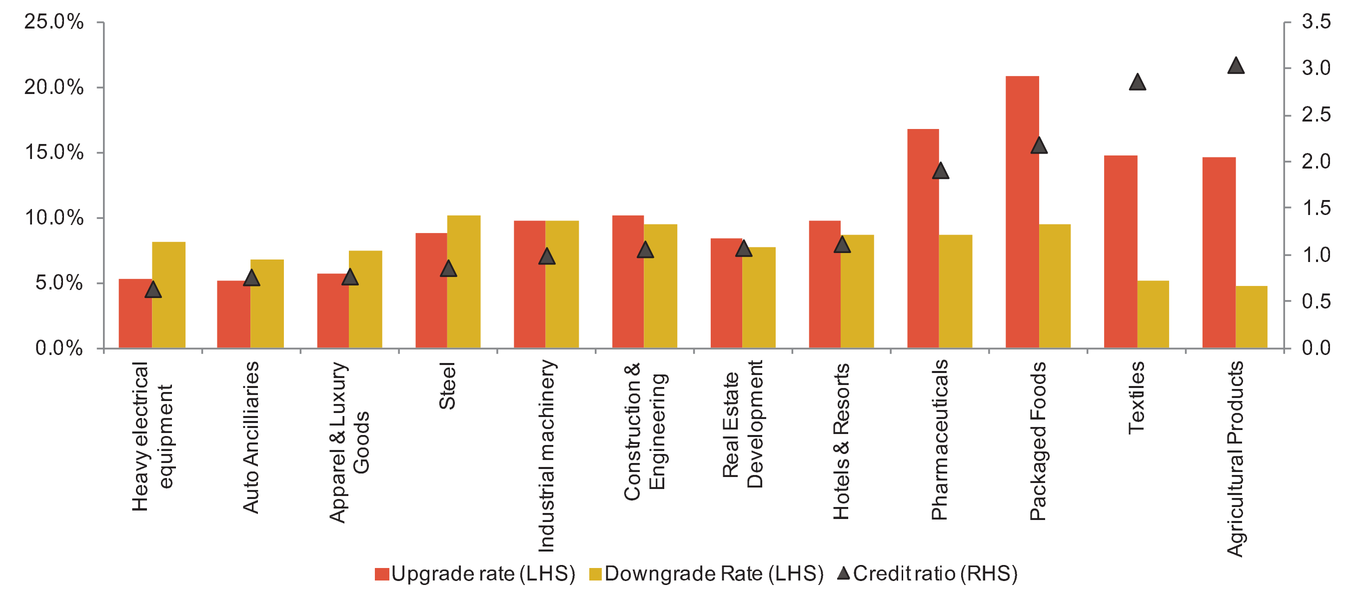
Outlook:

CRISIL believes that the improvement in credit quality, witnessed in H1 2014-15, will continue in the second half (H2), providing a much needed respite to corporate India. Reversing the trends of growth below 5 per cent over the two years ended March 31, 2014, India's GDP could grow at 5.5 per cent in 2014-15, led by the manufacturing sector. Despite high lending rates, an upswing in demand and high capacity utilisation could improve the profitability of Indian corporates. The improvement will be more pronounced for export-oriented sectors.

The credit quality pressures that beset corporate India since March 2012, could ease with improved profitability. CRISIL believes that corporate credit quality will improve gradually as GDP growth increases marginally vis-à-vis that in the two years ended 2013-14. The credit ratio is likely to exceed 1 time in H2 2014-15. As improvement in private consumption depends strongly on consumer and business confidence, the ability of the new central government to push reforms in the land acquisition bill and labour laws will remain key monitorables in H2 2014-15. The impact of the monsoons, the progress by indebted corporates in reducing dependence on external debt, enhanced demand in the economy and the extent of policy reforms by the GoI will be key monitorables.

Key reasons for rating actions and outlook for key industries

Chart 7- Rating actions of top 12 industries



Source: CRISIL

Key reasons for rating action and credit quality outlook for key sectors

Industry	Key Reasons for Rating action in H1 2014-15	Outlook for the medium term
Construction	Downgrades were driven by sluggish domestic demand and continued pressure on working capital requirements with stretched receivables and high inventory. Most upgrades resulted from an increase in the scale of operations and selective and prudent project tendering, thereby improving business risk profiles, and operational efficiencies. A tenth of the upgrades were from the default category, primarily driven by the firms' track record in timely servicing of debt.	Despite recent policy changes initiated by the GoI in some sectors, and improved order inflows in others, CRISIL believes that revenue growth in the construction sector will remain sluggish, driven by the players' strained financial position, which will impact the sector's execution in the near term. Furthermore, issues such as regulatory hurdles, land acquisitions and other clearances persist. While order inflows from the international markets and urban infrastructure segments will improve, the slowdown in the road and power segments will continue, over the medium term. Weak demand and consistently low capacity utilisation will lead to low industrial capital expenditure (capex). CRISIL believes that project execution is likely to recover in H2 2014-15, following expected policy changes in sectors such as roads and power and enhanced order inflows. Furthermore, the competitive intensity in the sector has now receded with players bagging new projects at improved profit margins. However, the spillover from execution delays and aggressive bidding in the past will continue to weigh heavily on the sector's operating margins. Furthermore, large working capital requirements (resulting from slow execution and stretched receivables) and high interest costs will continue to restrict the improvement in net profitability. Sizeable debt, combined with weak profitability will constrain players' debt servicing abilities and financial flexibility. Firms will look to sell non-core assets to reduce overall debt.
Agricultural products	Most upgrades resulted from an increase in the scale of operations, healthy demand, enhanced operating efficiency and improved liquidity. The downgrades in the sector were driven by the pressure on working capital requirements from stretched receivables.	India dominates the global basmati rice industry with around 70 per cent of the global production. India exported 3.8 million metric tonnes (MT) of basmati rice in 2013-14. Exports of rice (basmati and non-basmati are estimated to have grown at 6 per cent and touch around 11 million MT in 2013-14. Paddy prices could remain stable over the medium term with minimum support prices slightly higher than those in 2013-14, thus increasing the

Industry	Key Reasons for Rating action in H1 2014-15	Outlook for the medium term
		procurement cost for rice millers. Therefore, gains on exports will be partially offset by the rise in paddy prices. However, the credit risk profile of rice exporters will remain stable over the medium term.
Textiles	Upgrades resulted from the firms' enhanced scale of operations and improved operating efficiency with healthy domestic and export demand. A few upgrades were led by improved liquidity from accretion to reserves. Three-fourths of the downgrades in the sector were to the default category, driven by weak liquidity and project delays.	Ready-made garment manufacturers could record healthy growth in revenue, over the medium term. Exporters are likely to benefit from the revival of demand in key export markets, namely the United States and the European Union, the rearrangement of orders from Bangladesh, and a weak Indian rupee. Domestic demand could remain steady. Healthy demand outlook and stable operating profitability are likely to improve cash accruals. Firms that maintain a healthy capital structure will witness an improvement in their credit risk profiles. Demand for cotton yarn in the domestic market remains strong and will partly compensate for the decline in export demand, especially from China. Operating profitability is expected to remain stable with prudent inventory holding policies. CRISIL believes that the credit risk profile of spinners will remain steady, over the medium term.
Steel	Upgrades were led by an improvement in financial risk profiles, on the back of steady cash accruals and the absence of debt-funded capex, over the medium term. A few upgrades were also driven by continued funding support from the promoters. Downgrades resulted from weakening financial risk profiles, because of significant debt-funded capex and constraints related to the availability of raw material, such as iron ore and coal. Around half of the downgrades occurred because of insufficient cash accruals to service debt obligations.	Growth outlook for the steel sector will remain muted with moderate recovery in the economy. Primary integrated steel players may partially take away the market share of secondary steel players. Growth for primary steel players will also be supplemented by exports as domestic primary steel players are cost competitive. Domestic steel prices will remain restricted by moderate demand, uneven capacity additions and weak international prices. Although international iron ore prices have fallen steeply, domestic iron ore prices will continue to hold with the ban on iron ore. Steel companies are, therefore, likely to import iron ore, taking advantage of soft international iron ore prices. International coking coal prices have also witnessed a steep fall. Hence, primary steel companies will maintain their capacity utilisation and operating profitability. However, secondary steel players may be subject to pressure in the topline and bottomline.

Industry	Key Reasons for Rating action in H1 2014-15	Outlook for the medium term
Real estate	A majority of downgrades in the real estate sector were to the default category, driven by weak liquidity. The upgrades were driven by progress in project construction and higher saleabiity in specific projects.	With an improvement in economy and consumer confidence, residential demand is expected to improve, although within the subsequent two to three quarters (6 per cent in 2014-15 and 8 per cent in 2015-16). Consequently, growth in capital values will be moderate (3 per cent in 2015-16 and 5 per cent in 2016-17). The growth in commercial and retail real estate will remain subdued at 2 to 3 per cent, over the medium term, because of excess supply in key micro-markets. Over the two years through March 31, 2014, developers' funding requirements increased with a slowdown in bookings and collections and an increase in construction costs. The increasing gap in cash flows was largely funded through debt. Hence, interest and principal payments could remain high over the two years through 2015-16. Nevertheless, the sector will continue to attract funding from traditional sources (banks and non-banking finance companies [NBFCs]). Alternate sources such as non-convertible debentures (NCDs), and commercial mortgage backed securities (CMBS) are also gaining momentum and expected to meet the increasing fund requirement of the sector.
Auto-ancillaries	Sluggish demand for commercial vehicles and tractors, and modest growth in passenger vehicle sales by original equipment manufacturers (OEMs) continued to impact the revenue of auto-component players. Sub-par liquidity and continuing profitability pressures were key drivers for downgrades in the sector.	CRISIL believes that the auto component segment will get some respite in 2014-15 with revenue expected to grow between 6 and 8 per cent. The OEM segment could grow at 7 per cent in 2014-15 with an improvement in the sale of new passenger vehicles and healthy growth in two-wheeler sales. Export demand could grow at around 10 per cent with gradually improving demand in the United States (US) and the European Union (EU). Growth in demand from the replacement market will be around 8 per cent, over the medium term. Profitability margins of auto-component players witnessed modest pressure, commensurate with growth in sales volumes, competitive intensity and rising employee costs in H1 2014-15. Though capacity utilisation could improve in H2 2014-15, in keeping with enhanced demand prospects, overall profitability margins for the auto-component sector could decrease by 100 to 125 bps in 2014-15.

Industry	Key Reasons for Rating action in H1 2014-15	Outlook for the medium term
		Capex spending, which has largely remained under control in H1 2014-15, could improve during H2 2014-15, as utilisation rates increase and demand from OEMs stabilises, over the period, thus necessitating additional borrowings. However, overall credit quality could remain stable.
Pharmaceuticals	Most of the upgrades resulted from an increase in the scale of operations, supported by strong domestic and export demand. Weak liquidity, driven by stretched receivables led to half of the downgrades in the sector.	CRISIL believes that the Indian pharmaceutical industry has healthy demand prospects in the export and domestic markets. Patent expirations and reduced healthcare spends across developed markets could enhance the market penetration of generics in regulated markets, thereby driving export revenue. Growth in the domestic market, could be driven by increased per capita expenditure for healthcare. Compliance with stringent regulatory requirements and intense competition continue to pose a key challenge for pharmaceutical players. However, low manufacturing costs and a robust demand outlook could support credit quality, over the medium term.
Packaged foods	Around half of the upgrades were led by improved scale of operations, with healthy demand. A few upgrades resulted from an increase in operating efficiency. The few downgrades in the sector were driven by a weak capital position and project delays.	India's packaged meat exports could maintain their growth trajectory over the medium term, with an expanding dairy herd, higher slaughter and improved efficiency following the establishment of integrated modern plants.
Financial sector	NBFCs and microfinance players witnessed the most upgrades in the sector, on the back of capital infusion, along with improved scale of operations and profitability.	CRISIL believes that NBFCs will gradually recover in 2014-15, on the backdrop of recovery in the domestic economy. The improvement will be supported by continual healthy growth in loans against property (LAP) and stable growth in the vehicle finance segment. The asset quality and profitability for NBFCs could stabilise and improve marginally, thereafter. Capitalisation could remain comfortable and support the credit profile of NBFCs, which will continue to face challenges in aligning their business models with the stringent regulatory framework. CRISIL believes that housing finance companies (HFCs) will maintain their relatively stable performance in 2014-15. Growth could remain steady at 19 to 20 per cent, driven primarily by

Industry	Key Reasons for Rating action in H1 2014-15	Outlook for the medium term
		individual home loans in Tier-II and Tier-III cities, and loans against property. HFCs will maintain their comfortable asset quality; gross NPAs could be around 0.8 per cent as of March 2015, after a slight increase in 2013-14 because of higher delinquencies in the non-individual portfolio, and in the self-employed category of individual home loans during the year, vis-à-vis 2012-13. HFCs could sustain adequate profitability with return on assets in the range of 2.1 per cent to 2.2 per cent.

Notes

About CRISIL Limited

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