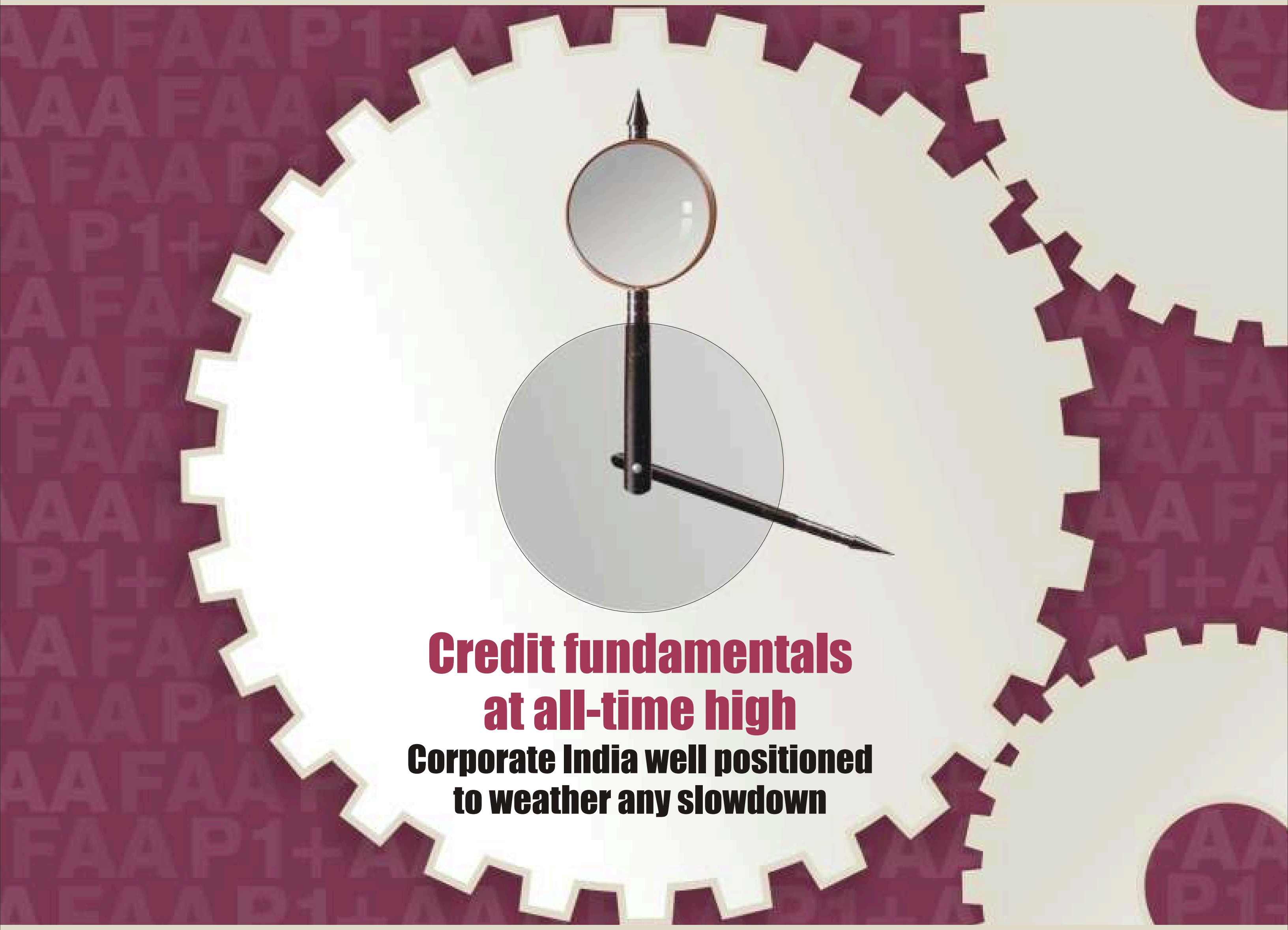
CRISIL RATINGS

The Most Reliable Opinion on Risk

RATINGS ROUNDUP

FY 2004-05



Credit fundamentals at all-time high

Corporate India well positioned to weather any slowdown

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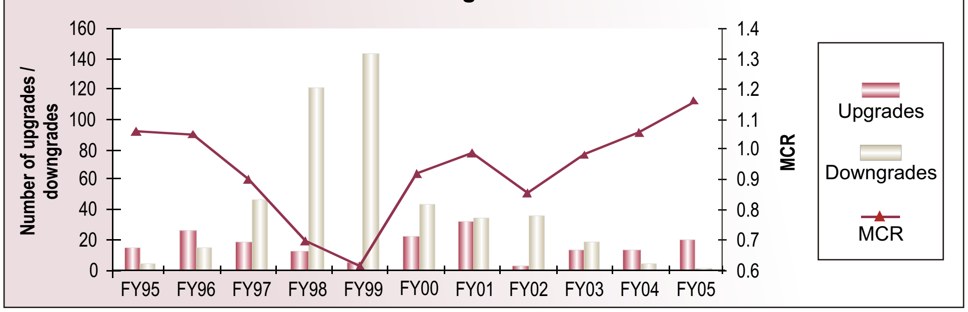
An analysis of CRISIL's rating trends indicates that the credit quality of CRISIL-rated corporates is stronger than it has been at any time in the recent past. This bears out the predictions made in CRISIL's October 2004 Ratings Round Up. An improvement in credit quality has been witnessed across all sectors covered by CRISIL. The analysis also indicates a sustainable improvement in the balance sheets of CRISIL-rated companies, and predicts a continuation of strengthened credit quality over the medium term. Although high oil prices or a slowdown in global economy might lead to deceleration in growth, CRISIL expects the strong credit quality of Indian corporate to hold through the medium term.

MCR at all-time high with improving corporate credit profile

CRISIL's modified credit ratio (MCR) is defined as the ratio of upgrades plus reaffirmations to downgrades plus reaffirmations. Given that CRISIL's rating portfolio encompasses all the key sectors of the Indian economy, and includes most of the top players in each segment, CRISIL's MCR is a reliable indicator of systemic credit quality trends, and a measure of underlying business fundamentals. In FY05 (April 2004 to March 2005), CRISIL's annual MCR for long-term ratings hit an all-time high of 1.16, passing the previous high of 1.06 recorded in FY95. This improvement reflects 26 upgrades and 2 downgrades in CRISIL's long-term ratings portfolio[1]. (See Appendix 1 for CRISIL's upgrades and downgrades for long-term ratings in FY05)

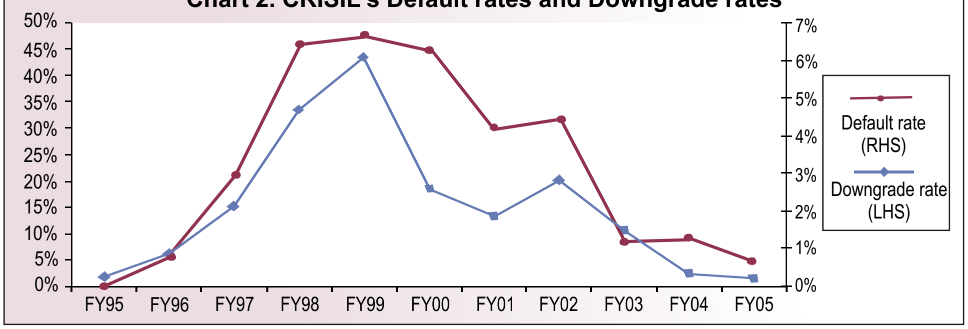
Chart 1. Rating actions vs MCR



Downgrade rate touches 10-year low

CRISIL's downgrade rate - defined as the ratio of total downgrades to outstanding ratings[2] - reached a 10-year low of 1.32%, breaching the previous low of 1.99% recorded in FY95. However, in contrast to FY95 when no default was recorded, one default was observed in CRISIL's long-term ratings portfolio in FY05.

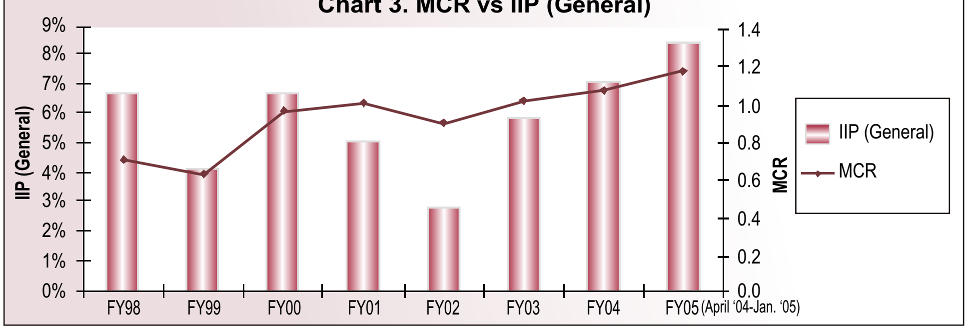
Chart 2. CRISIL's Default rates and Downgrade rates



Expected improvement in corporate performance has materialised

CRISIL's rated portfolio includes a wide range of sectors, and covers the key players in each sector. This makes CRISIL MCR a sensitive measure of industrial performance and prospects. As predicted in the CRISIL Ratings Round-Up of October 2004, the performance of the industrial sector continues to be strong. Chart 3 below shows that the growth in the Index of Industrial Production (general), at 8.45%, scaled a 10-year high in FY05; this is in keeping with the indications available from CRISIL MCR. This growth in IIP (general) is also reflected in improvements in MCR of all the key sectors of the economy, as will be discussed later in this document.

Chart 3. MCR vs IIP (General)

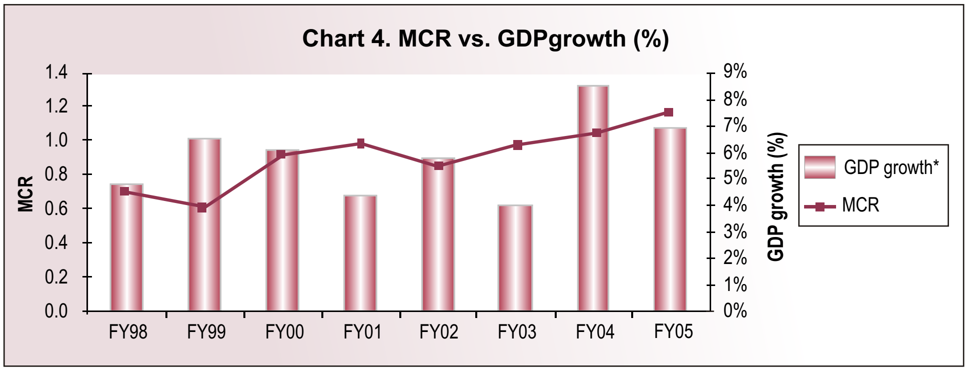


Source: CRISIL Centre for Economic Research

[1] CRISIL's portfolio of Fixed Deposit ratings observed 12 upgrades and 2 downgrades. (See Appendix 1).
[2] Including 'D' ratings.

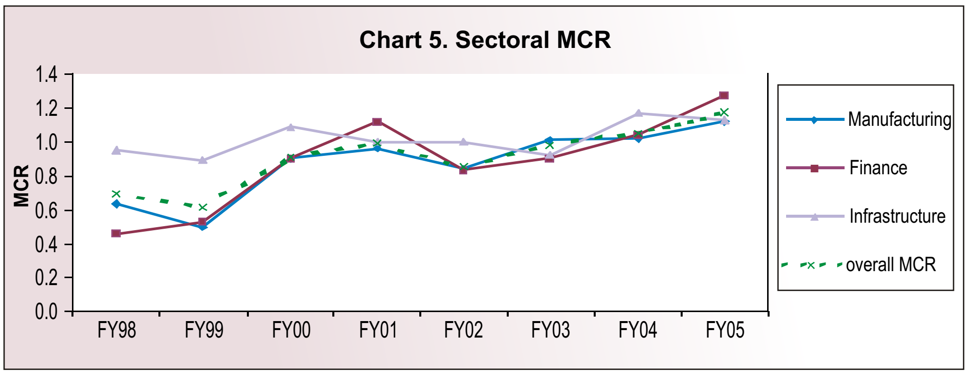
Broad-based improvement

Historically, GDP growth has also mirrored MCR. However, in FY05, the GDP growth rate was impacted by a sharp decline in agricultural growth, which dropped to 1.1% from 9.6% in FY04 due to a poor monsoon. This has had no significant impact on the growth of the industry and services sectors, which are more strongly linked to corporate performance, and therefore reflected in MCR trends.



Source: CRISIL Centre for Economic Research

Key sectors of the economy - Manufacturing, Infrastructure and Finance - recorded MCRs of more than 1 for the second consecutive year, indicating continued buoyancy. The Manufacturing and Finance sector MCR's reached 7-year high of 1.13 and 1.27 respectively.



Of the 13 upgrades in the manufacturing sector, the automobile industry accounted for three, with the remainder being distributed across sectors. This underscores the broad-based improvement observed so far in manufacturing sector performance. The two downgrades in the manufacturing sector were NIIT Technologies (subsequent to its de-merger from its parent, NIIT Ltd) and Escorts Ltd (on account of problems following a delay in realising proceeds on the sale of investments in telecom ventures Escotel Mobile Communications and Escorts Telecom Ltd. to Idea Cellular).

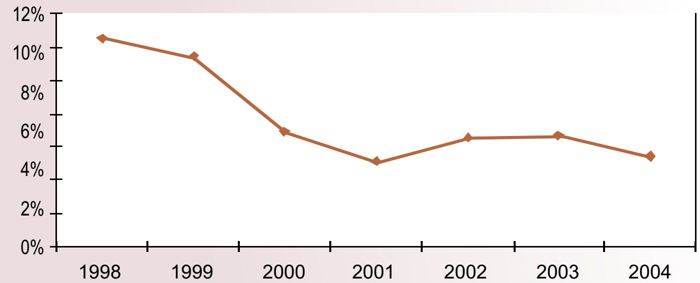
Manufacturing sector-demand driven growth

Key industries in the manufacturing sector have shown strong performance, driven by both consumption and investment-led domestic demand. Continued spending on road projects, a buoyant construction sector, and growth in automotive and consumer durable sectors (led by the availability of low-cost retail financing), drove demand for cement and metals. On the other hand, sectors such as pharmaceuticals and auto ancillaries have leveraged global cost competitiveness and registered impressive export performances despite the rupee's appreciation against the US dollar.

This strong demand, coupled with only modest capacity addition in the recent past, resulted in high capacity utilisation across key industries (see charts 6 and 7 below). Additionally, initiatives on cost cutting and value engineering, coupled with lower finance costs, have contributed to sustainable improvements in competitiveness across sectors. A continued global cyclical upturn in commodities, notably metals and petrochemicals also significantly boosted corporate bottomlines. CRISIL-rated corporates have used this phase of high accruals to strengthen their balance sheets, and are thus better placed to cope with incipient margin pressures, and with any future slowdown. CRISIL therefore expects sustained strong credit quality in the corporate sector.

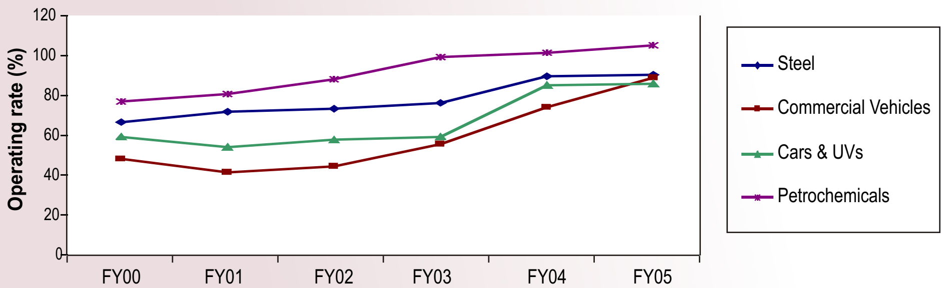
Going forward, CRISIL believes that high oil prices and potential slowdown in global economy could play a role in muting the buoyant growth observed so far. Sustainable improvements in corporate balance sheets will, however, buttress the underlying credit quality of the rated corporate portfolio, allowing corporates to weather periods of weaker performance. CRISIL therefore expects the credit quality of its rated corporates to demonstrate steady performance going forward.

Chart 6. Incremental Gross Fixed Assets / Sales



Source: CRIS INFAC

Chart 7. Sector-wise operating rates



Source: CRIS INFAC

Infrastructure sector- emerging regulatory and policy clarity

The infrastructure sector saw three upgrades and no downgrades during FY05. Emerging regulatory and policy level clarity, particularly in the power and telecom sectors, has reduced uncertainties in the sector and spurred investment. The road sector witnessed a high level of activity with some annuity projects under the NHDP programme becoming operational. Mining companies too witnessed an upturn in volumes and prices, largely driven by the growth in demand from China.

As with the corporate sector, CRISIL believes these growth trends may not sustain at the same levels going forward. For rated companies in the sector, credit quality is expected to remain stable over the short to medium term, reflecting favourable structural factors described above.

Finance sector- continued improvement in operating efficiency

With an MCR of 1.27, the financial sector showed the most pronounced upward trend among the three sectors covered in this study. Of a total of 10 financial sector upgrades, five were from the banking industry; the sector witnessed no downgrades. While retail loan books were burgeoning for the last few years, banks witnessed healthy corporate loan book growth during FY05. Improving economic performance and an upturn in the commodity cycle also helped reduce loan losses and provisioning requirements. However the key reason for upgrades in banking sector was CRISIL's reassessment of the Government of India support available to public sector banks; this reassessment also led to upgrades of bank subsidiaries.

In FY06, CRISIL believes that increasing efficiency of operations, and the ability to pass on increased cost of funds to borrowers, will protect the earnings of its rated financial sector entities. Additionally, in CRISIL's opinion, loan loss levels will be contained as asset quality is unlikely to deteriorate. CRISIL therefore expects the current high levels of credit quality of these entities (96.2% of CRISIL's financial sector ratings are 'AA' or above) to be sustained going forward.

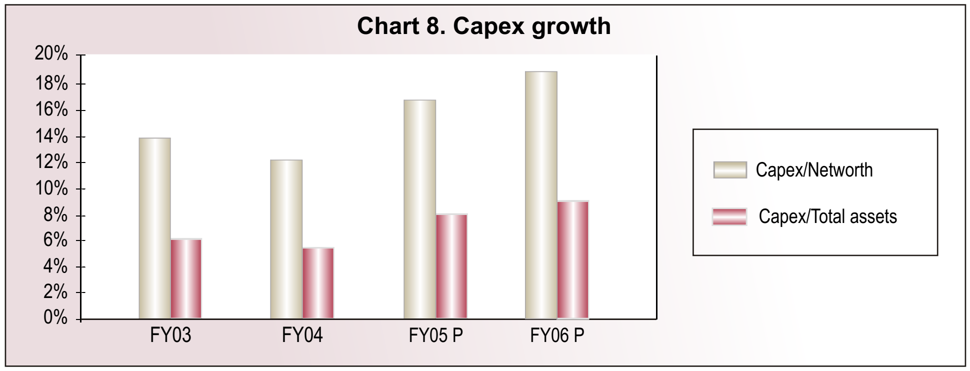
Anticipated upturn in the investment cycle has occurred

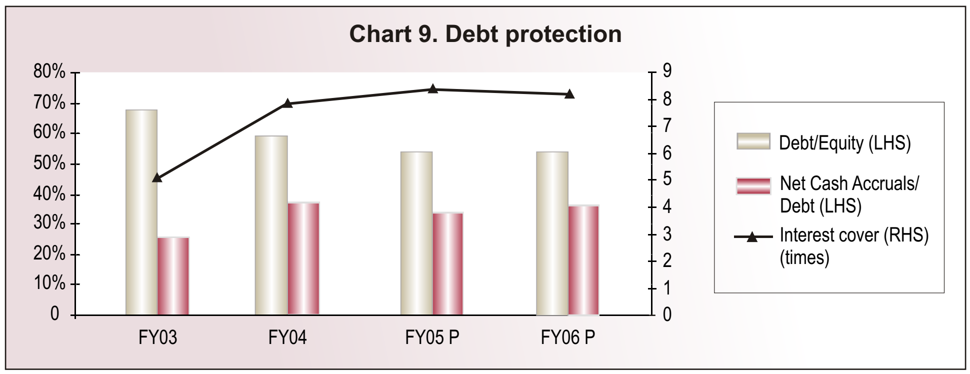
CRISIL's Ratings Round Up of April 2004 predicted increased investments in capacity. An analysis of over 200 manufacturing and infrastructure companies in CRISIL's rated portfolio indicates that the expected corporate investment in new capacity is indeed taking place, as evident from Chart 8. This uptrend in the investment cycle is driven by

a) Growing business confidence
b) High operating rates across most industries

c) Low real interest rates - Real interest rates remained negative for the second consecutive year due to suppressed nominal interest rates

d) Increased debt-taking capacity on the back of improved profitability and restructured balance sheets (refer chart 9)

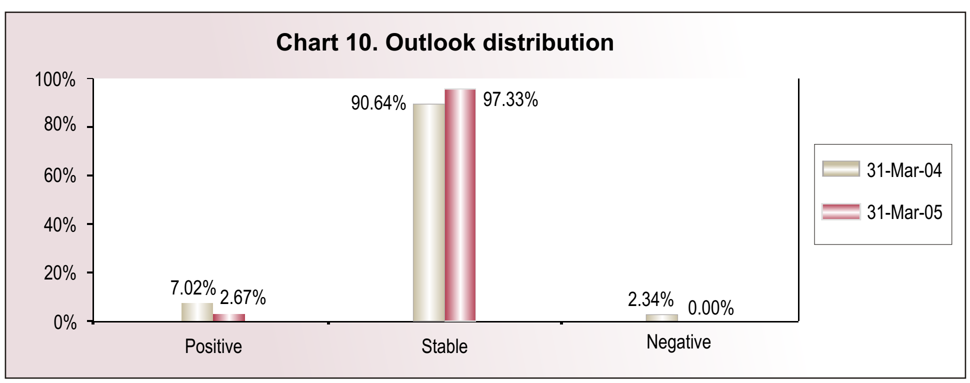




Significantly, in spite of higher capital expenditure, the debt protection measures for companies in CRISIL's portfolio are expected to remain strong (see chart 9). CRISIL therefore believes that its rated companies are at present comfortably placed to absorb the current investment spurt without stressing their capital structures.

More outlooks on 'Stable'

Rating Outlooks, assigned by CRISIL since September 2003, have proven to be leading indicators of the likely direction of rating movements. Based on the outlooks presented in the half-yearly Ratings Round-up in October 2004, a limited number of rating actions were expected in the second half of the year. This has indeed been the case with the second half of the year witnessing only one upgrade and two downgrades. Also, FY05 had begun with five companies having positive outlooks, all of which were upgraded during the year.



The current distribution of outlooks presented in the chart above, with no negative outlooks currently outstanding, presages high stability for CRISIL ratings over the medium term.

APPENDIX I

CRISIL's Long Term rating upgrades in FY05

Sl. No	Company	Sector	Industry	Rating From	Outlook From	Rating To	Outlook To
1	Ashok Leyland Ltd.	Automobiles 4 wheelers	Manufacturing	AA-	Stable	AA	Stable
2	Bank of Baroda	Banks	Finance	AA+		AAA	Stable
3	Bharti Cellular Ltd.	Telecommunication-Services-Equipments/Cable	Infrastructure	AA-	Stable	AA	Stable
4	BOB Housing Finance Ltd.	Housing Finance Company	Finance	AA	Stable	AA+	Positive
5	Cadila Healthcare Ltd.	Pharmaceuticals	Manufacturing	AA	Stable	AA+	Stable
6	Canara Bank	Banks	Finance	AA+		AAA	Stable
7	Canbank Factors Ltd.	Non Banking Finance Company	Finance	AA	Stable	AA+	Stable
8	Chambal Fertilisers & Chemicals Ltd.	Fertilisers	Manufacturing	A+	Positive	AA-	Stable
9	Dhampur Sugar Mills Ltd.	Sugar	Manufacturing	D		BB	Stable
10	EID Parry (India) Ltd.	Diversified	Manufacturing	AA-	Stable	AA	Stable
11	Essel Mining and Industries Ltd.	Mining	Infrastructure	AA-	Stable	AA	Stable
12	Essel Propack Ltd.	Packaging	Manufacturing	AA	Positive	AA+	Stable
13	Finolex Industries Ltd.	Plastic & Plastic Products	Manufacturing	AA	Stable	AA+	Stable
14	IDBI Bank Ltd.	Banks	Finance	A+		AA+	Stable
15	Indian Overseas Bank	Banks	Finance	AA	Stable	AA+	Stable
16	LG Electronics India Ltd.	Consumer Durable	Manufacturing	AA	Positive	AA+	Stable
17	Mahindra and Mahindra Financial Services Ltd.	Non Banking Finance Company	Finance	AA	Stable	AA+	Stable
18	Mahindra and Mahindra Ltd.	Automobiles 4 wheelers	Manufacturing	AA	Stable	AA+	Stable
19	PNB Housing Finance Ltd.	Housing Finance Company	Finance	AA	Stable	AA+	Stable
20	Steel Authority of India Ltd.	Steel & Steel Products	Manufacturing	BBB		A	Stable
21	Sterlite Industries (India)Ltd.	Diversified	Manufacturing	AA-		AA	
22	Syndicate Bank	Banks	Finance	AA	Stable	AA+	Stable
23	Tata Chemicals Ltd.	Diversified	Manufacturing	AA	Positive	AA+	Stable
24	Tata Finance Ltd.	Non Banking Finance Company	Finance	BBB	Positive	AA+	Stable
25	Tata Motors Ltd.	Automobiles 4 wheelers	Manufacturing	AA	Stable	AA+	Stable
26	Tata Power Company Ltd.	Power	Infrastructure	AA+	Stable	AAA	Stable

CRISIL's Long Term rating downgrades in FY05

Sl. No	Company	Sector	Industry	Rating From	Outlook From	Rating To	Outlook To
1	Escorts Ltd.	Automobiles 4 wheelers	Manufacturing	C		D	
2	NIIT Technologies Ltd.	Computers - Software	Manufacturing	AA+	Stable	AA-	Stable

CRISIL's Fixed deposit rating upgrades in FY05

Sl. No	Company	Sector	Industry	Rating From	Outlook From	Rating To	Outlook To
1	Ballarpur Industries Ltd.	Paper & Paper Products	Manufacturing	FA+	Stable	FAA-	Stable
2	Canbank Factors Ltd.	Non Banking Finance Company	Finance	FAA+	Stable	FAAA	Stable
3	Chambal Fertilisers & Chemicals Ltd.	Fertilisers	Manufacturing	FAA-	Positive	FAA	Stable
4	Dhampur Sugar Mills Ltd.	Sugar	Manufacturing	FD		FB+	Stable
5	Kirloskar Brothers Ltd.	Compressors & Pumps	Manufacturing	FA+		FAA-	
6	Lakshmi General Finance Ltd.	Non Banking Finance Company	Finance	FAA+	Positive	FAAA	Stable
7	Mahindra and Mahindra Financial Services Ltd.	Non Banking Finance Company	Finance	FAA	Stable	FAA+	Stable
8	PNB Housing Finance Ltd.	Housing Finance Company	Finance	FAA+	Stable	FAAA	Stable
9	State Bank of Indore	Banks	Finance	FAA		FAAA	Stable
10	Steel Authority of India Ltd.	Steel & Steel Products	Manufacturing	FA		FA+	Stable
11	Sundaram Finance Ltd.	Non Banking Finance Company	Finance	FAA+	Positive	FAAA	Stable
12	Tata Finance Ltd.	Non Banking Finance Company	Finance	FA-	Positive	FAAA	Stable

CRISIL's Fixed deposit rating downgrades in FY05

Sl. No	Company	Sector	Industry	Rating From	Outlook From	Rating To	Outlook To
1	CentBank Home Finance Ltd.	Housing Finance Company	Finance	FAA-		FA-	
2	EIH Ltd.	Hotels	Manufacturing	FAA-	Negative	FA+	Stable

Credibility. Independence. Analytical Rigour.

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About the CRISIL Ratings Roundup

The CRISIL Ratings Roundup is a semi-annual publication that analyses CRISIL's rating actions during a particular period and the linkages between these actions and underlying economic trends. Since credit rating is an opinion on likelihood of timely future debt repayments, an analysis of rating actions in a large and diverse portfolio of rated companies, can be useful indicator of economic prospects. This edition analyses CRISIL's rating actions in FY 2004-05