



CRISIL
RATINGS

The Most Reliable Opinion on Risk

RATINGS ROUNDUP

First Half 2005-06



**Strong fundamentals shield
companies from rising pressures**
**CRISIL MCR dips after
three years of increase**

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Corporate India's fundamentals continue to remain strong, according to CRISIL's analysis of trends in its ratings. CRISIL's modified credit ratio (MCR, the ratio of upgrades plus reaffirmations to downgrades plus reaffirmations) has continued to remain above 1.0, implying strengthening credit fundamentals for CRISIL-rated corporates. However, the MCR has dropped after three years of increase, indicating stiffer challenges for corporate India in improving its credit quality in the short to medium term. Given that CRISIL's rated portfolio covers key sectors of the Indian economy, and includes most of the top players in each segment, CRISIL's MCR stands out as a reliable indicator of systemic credit quality, and of underlying business fundamentals.

Infrastructure sector- government policy to determine stability

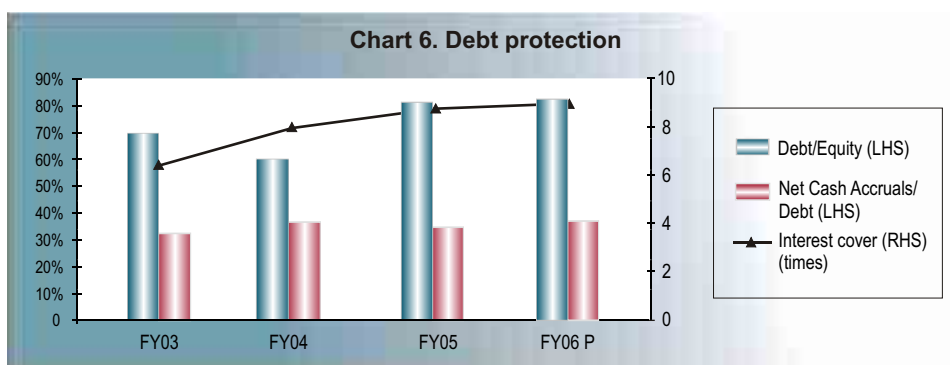
In line with the predictions in CRISIL's Ratings Round-Up of April 2005, the credit quality of infrastructure sector entities remained stable, with no upgrade or downgrade during the first half of FY06. The realisations of mining sector entities are currently growing strongly due to demand-driven increases in prices; if sustained, this trend can lead to further strengthening of the credit quality of these entities. However, increasing oil prices are affecting the financial performance of public sector oil companies. The timeliness and adequacy of government action will be a key monitorable for the credit profile of these companies.

Finance sector- Parent/Government support to drive stability

The financial sector showed stability with an MCR of 1, indicating that there were no upgrades or downgrades in this sector. The credit profile of financial sector entities will continue to receive the benefit of support from Government or strong foreign parents, thus lending stability to their overall credit risk profile.

Debt protection levels remain strong

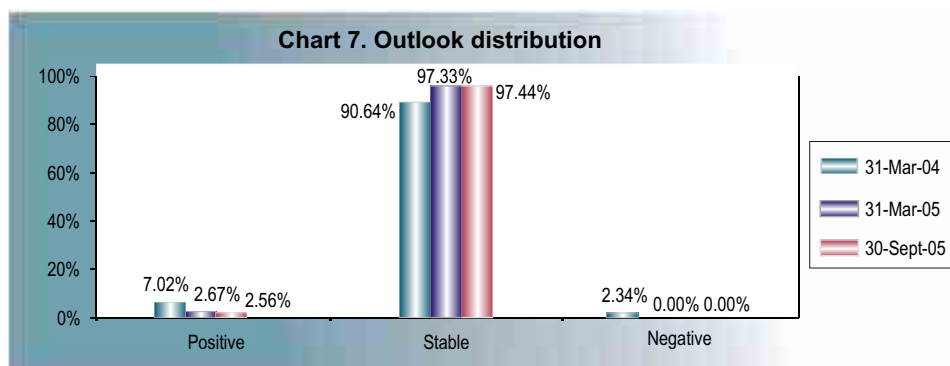
As was pointed out in CRISIL's Ratings Round-Up of April 2005, the additions to capital in FY05 were supported by strong debt protection measures, a trend that continues to hold in the first half of FY06. Over the medium to long term, however, CRISIL believes that the growth without compromising capital structures will be a key determinant of sustained credit quality.



Source: Data of more than 200 CRISIL rated companies in the Mfg and infrastructure sectors

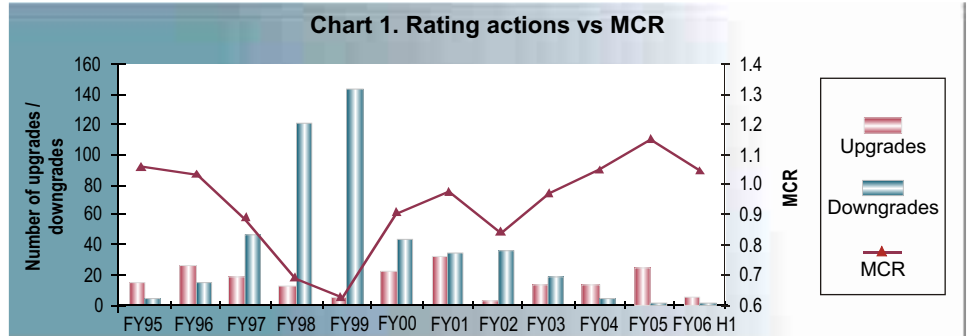
Stability of ratings to continue

Rating Outlooks, assigned by CRISIL since September 2003, have proven to be leading indicators of the likely direction of rating movements. At the end of FY05, the proportion of ratings carrying stable outlooks had increased to 97.3% from 90.64% at the beginning of the year, indicating high stability of CRISIL ratings over the medium term (refer Chart 7). This has indeed come true with the MCR for long-term ratings decreasing to 1.06 for the first half of FY06 from the high of 1.16 for FY05. The distribution of outlooks at the end of September 2005 indicates continuation of the stable outlook for CRISIL's ratings over the medium term.



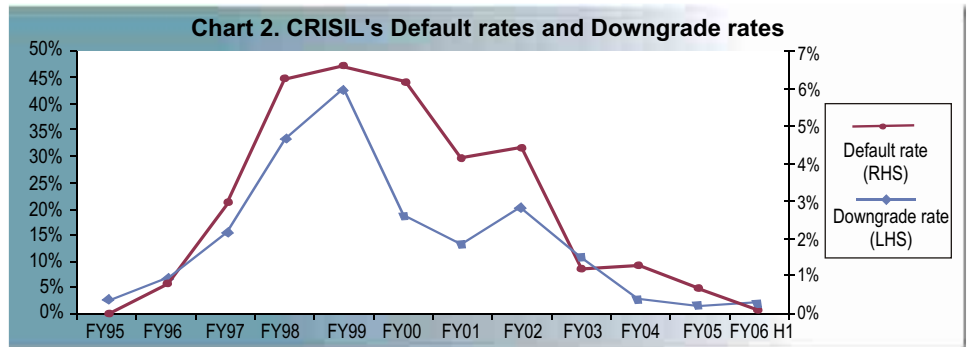
MCR dips after a record high

CRISIL's modified credit ratio (MCR) is defined as the ratio of upgrades plus reaffirmations to downgrades plus reaffirmations. In H1/FY06 (April 2005 to September 2005), CRISIL's annual MCR for long-term ratings steadied at 1.05, declining from the previous high of 1.16 recorded in FY05. The MCR reflects 6 upgrades and 1 downgrade in CRISIL's long-term ratings portfolio¹. (See Appendix 1 for CRISIL's upgrades and downgrades for long-term ratings in H1/FY06)



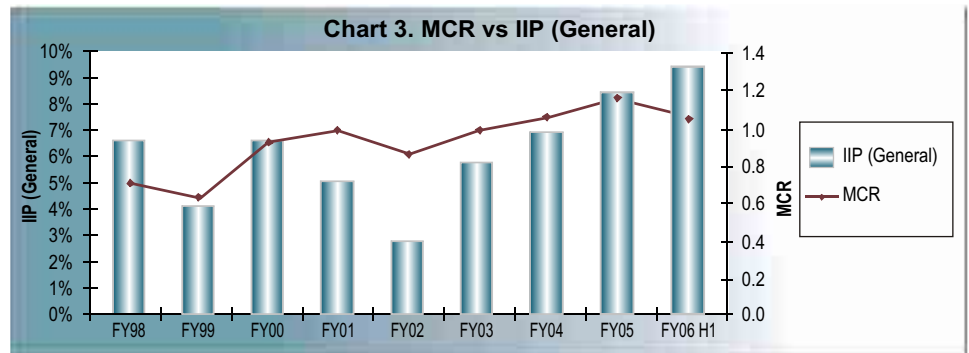
Downgrade rate remains at 10-year low

CRISIL's long term downgrade rate - defined as the ratio of total downgrades to outstanding ratings² - remained flat at the 10-year low of 1.32% recorded in FY05, as no default was recorded in the first half of FY06.



Rating trends and macroeconomic linkages

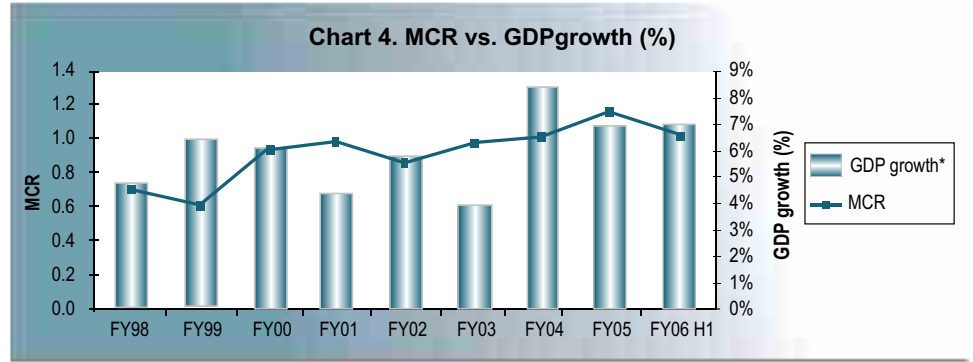
CRISIL MCR is a sensitive measure of industrial performance and prospects as it covers a wide range of sectors and key players in each sector. In line with predictions in CRISIL's Ratings Round-Up of October 2004 and April 2005, the performance of the industrial sector continues to be strong. Chart 3 below shows that the growth in the Index of Industrial Production (general), at 9.4% for the first half of FY06, scaled yet another 10-year peak.



¹ CRISIL's portfolio of Fixed Deposit ratings featured 4 upgrades and 0 downgrades. (See Appendix 1).

² Including 'D' ratings

In addition, a high MCR presages strong GDP growth. The buoyant growth in GDP for the third year in succession follows the third consecutive year with MCR at levels of 1.0 or more.

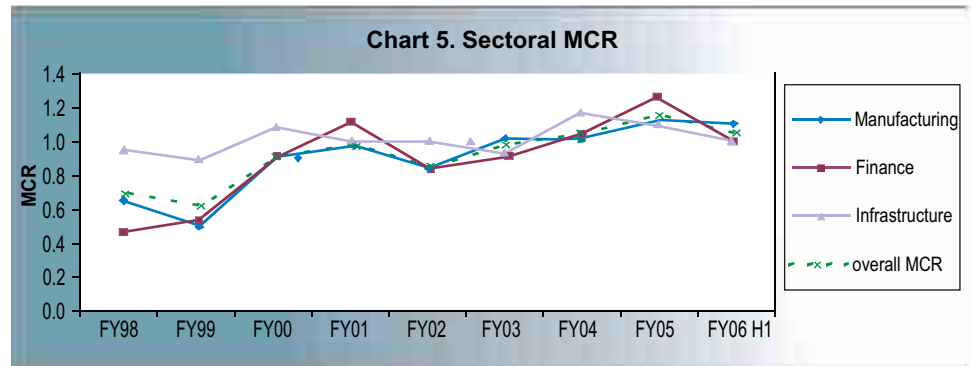


Source: CRISIL Centre for Economic Research

It should however, be noted that the MCR has dipped after 3 successive years of increase. This implies that going forward, growth rates could slow down from the highs witnessed in the recent past.

Sectoral Analysis

The manufacturing sector accounted for all the upgrades and the downgrade, and recorded a sectoral MCR of 1.11. This is lower than the 1.13 recorded in FY05, which was the highest MCR ever recorded by the sector. The finance and infrastructure sectors had a stable MCR of 1.0, indicating a consolidation of their improved position of the previous two years.



The six upgrades in the manufacturing sector were spread over different industries, indicating broad-based improvements in credit quality. The single downgrade was that of Hero Cycles, which faces the combined effect of three factors: volume de-growth, rising input prices, and exposure to weak group companies.

Manufacturing sector - growth to plateau

A large number of industries in the manufacturing sector continue to show strong performance due to buoyant demand. Profitability has also improved across rating categories in this sector. Increased investor confidence and the increasing global competitiveness of the Indian corporate sector, coupled with strong growth in the construction, automobile and infrastructure sectors have kept demand buoyant for the manufacturing sector. However, significant increases in oil prices, plateauing of growth rates in some key industries, infrastructure constraints and hardening real interest rates, will be immediate challenges facing the Indian manufacturing sector, impacting growth trajectory. In addition, with most manufacturing sectors operating at high capacity utilization levels, significant growth over the medium to long term will call for fresh investments, and consequent exposure to associated risks. In this scenario, the strong credit position of CRISIL-rated corporates is expected to lend stability to their performance over the medium term.

APPENDIX I

CRISIL's Long Term Rating Upgrades in H1 2005-06

Company	Industry	Rating From	Outlook From	Rating To	Outlook To
MANUFACTURING SECTOR					
Indian Petrochemicals Corporation Limited	Petrochemicals	AA	Stable	AAA	Stable
VST Industries Limited	Cigarettes	AA	Stable	AA+	Stable
Gujarat Ambuja Cements Limited	Cement & Cement Products	AA+	Stable	AAA	Stable
Soma Textiles & Industries Limited	Textile - Cotton	BB	Stable	BB+	Stable
Uttam Galva Steels Limited	Steel	BBB+	Stable	A-	Stable
Carborundum Universal Limited	Abrasives	AA	Positive	AA+	Stable

CRISIL's Long Term Rating Downgrades in H1 2005-06

Company	Industry	Rating From	Outlook From	Rating To	Outlook To
MANUFACTURING SECTOR					
Hero Cycles Limited	Cycle & Cycle Components	AA+	Stable	AA	Stable

CRISIL's Fixed Deposit Ratings Upgrades in H1 2005-06

Company	Industry	Rating From	Outlook From	Rating To	Outlook To
MANUFACTURING SECTOR					
Jindal Saw Limited	Steel Products	FA-	Stable	FA+	Stable
Kirloskar Oil Engines Limited	Engines Diesel	FA+	Stable	FAA	Stable
VST Industries Limited	Cigarettes	FAA+	Stable	FAAA	Stable
Indian Petrochemicals Corporation Limited	Petrochemicals	FAA+	Stable	FAAA	Stable



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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 First Half 2005-06.