

ECOWRAP

S&P revises rating outlook: rating upgrade next?



S&P today revised India's credit outlook to '**stable**' from 'negative' and affirmed the ratings at BBB-. We believe, CAD for the current fiscal will be at 1.5% of GDP. Net capital inflows will top \$60 bn. Thus, external situation looks pretty comforting and benign. We also believe that India is well on a path of faster than anticipated fiscal consolidation and it could be a positive surprise going forward. In effect, fiscal deficit could be well below 3% in FY17. In our estimate, in FY16, GDP will grow by 6.5%-7% and subsequently the real per capita GDP will grow by more than 5.5%. So, a rating upgrade in the next fiscal looks a distinct possibility. The last ratings upgrade happened in FY08, when the real percapita GDP growth was 7.9%.

S&P Revised India's Credit Outlook to Stable

- ◆ S&P today revised India's credit outlook to 'stable' from 'negative' and affirmed the ratings at BBB-, on the hope that the stable Government will continue to implement fiscal and economic reform measures, boosting growth prospects and improving fiscal management in the country.
- ◆ Interestingly, in our 'Ecowrap' (titled: *Fiscal bonanza awaits Government, impact on CAD may be marginal!*), earlier today we stated that the combined impact of compensatory payment from the coal mines (₹7000-8000 crore) and savings from lower fuel subsidy bill due to decline in oil prices (₹15,000 crore) would bring down fiscal deficit by 18 bps to 3.95% from BE 4.13% of 2014-15, assuming all other things remains unchanged).
- ◆ With increased earning of the exchequer due to reallocation of coal blocks, we do believe that the targeted fiscal consolidation roadmap of limiting the said at 3% by fiscal year ending 2017 would be significantly easier to achieve, and it may be well below 3% by 2017.

Table 1: Sovereign Rating & Outlook of BRICS Countries

Country	Sovereign Ratings			Outlook		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Brazil	Baa2	BBB-	BBB	Negative	Stable	Stable
China	Aa3	AA-	A+	Stable	Stable	Stable
India	Baa3	BBB-	BBB-	Stable	Stable	Stable
Russia	Baa1	BBB-	BBB	Negative	Negative	Negative
South Africa	Baa1	BBB-	BBB	Negative	Stable	Negative

Source: Bloomberg, SBI Research

Table 2: Arithmetic of Fiscal Deficit FY15

Fiscal Deficit (BE) - ₹ Cr	531177
FD (% of GDP)	4.13%
Revenue from Penalty (₹ Cr)	8000
Savings in Fuel Subsidy (₹ Cr)	15000
Fiscal Deficit (Projection) - ₹ Cr	508177
Projected FD (% of GDP)	3.95%
Memo:	
Nominal GDP (₹ Cr)	1,28,76,653

Source: SBI Research

Rating Upgrade by the Next Year

- ◆ Typically, ratings agencies look at economic parameters like fiscal deficit, CAD, inflation and growth outlook, while deciding the investment grade.
- ◆ We believe, CAD for the current fiscal will be at 1.5% of GDP. Net capital inflows will top \$60 bn. Thus, external situation looks pretty comforting and benign.
- ◆ Furthermore as per current estimates, debt switch of ₹13,000 crore, lower borrowings through dated securities of around ₹16,000 crores and lower borrowings through treasury bills by ₹12,000 crores (total ₹40,000 crores), will pull have a downward impact on the term structure of interest rates.
- ◆ In our estimate, in FY16, GDP will grow by 6.5%-7% and subsequently the real per capita GDP will grow by more than 5.5%. So, a rating upgrade in the next fiscal looks a distinct possibility. The last ratings upgrade happened in FY08, when the real percapita GDP growth was 7.9%.

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