

The biggest surprise may be, around the corner

A ratings upgrade on India

A little short of an year, Moody's let down the Government's request and kept the sovereign ratings unchanged giving reasons of ailing public sector banks, high debt levels and weak public finances.

Government's broader and bold moves are likely to compel the rating agencies to upgrade the sovereign ratings of India sooner than later.

Currently, India is rated at Baa3 by Moody's, the agency's lowest notch for debt considered investment grade.

A little short of an year, India had sought an upgrade from leading rating Agency, Moody's and was let down – not quite politely. India's take was the effort by the Government on reforms especially that of curbing corruption and circulation of black money, GDP growth, and robust foreign currency reserves.

Moody's let down the Government and kept the sovereign ratings unchanged giving reasons of ailing public sector banks, high debt levels and weak public finances. The government lobbied with examples of countries where ratings were higher than India despite higher Debts in their countries, but Moody's did not budge from their standings on India - and kept their ratings unchanged.

However, despite skepticism of low GDP growth in latest quarters (5.7% in quarter ending June-2017) and cut in GDP growth forecast by IMF, (from 7.2% estimated earlier to 6.7% for CY17 and from 7.7% to 7.40% for CY18) we believe there are several reasons for the rating agencies to take note of the broader and bold moves that the Government has taken that may compel to upgrade the sovereign ratings of the country, sooner than later.

The three broad factors that may compel India's sovereign ratings upgrade are:

- ◆ Implementation of a unified tax structure
- ◆ Implementation of the Bankruptcy law
- ◆ Recapitalization of Public sector banks with a booster dose

Besides the above, the following points are add-ons for a ratings upgrade;

- a. Record high forex reserves
- b. A stable currency (INR)
- c. Productive use of savings derived from lower crude oil prices for infrastructure development
- d. Clampdown on shell companies to broaden the formal economy
- e. Inclusive growth by targeting to double farm income by 2022
- f. Concerted effort to increase government revenues by increasing the tax net

Currently India is rated at Baa3 by Moody's, the agency's lowest notch for debt considered investment grade. A higher rating would signify to bond investors that India was more creditworthy and help to lower its borrowing costs.

We believe, a sovereign rating upgrade for India may be a feather in the cap to the PSU Banks, which give further tail winds to attract investments.

For further reference, please find the link below—

<http://in.reuters.com/article/india-ratings-moody-s/exclusive-how-india-lobbied-moodys-for-ratings-upgrade-but-failed-idINKBN14E09A>

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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