

RUBIX QUARTERLY RISK TRANSITION REPORT

Q4 FY 2020 - Q1 FY 2021

At the end of each quarter of the Indian financial year (April - March), **Rubix Data Sciences Pvt. Ltd (Rubix)** compares the data of how Indian companies/ firms in its monitoring portfolio have performed versus the prior quarter, from a statutory compliance and external credit rating perspective.

The key parameters being monitored each quarter are:

- 1. GST Returns:** Is the business entity paying GST and filing the necessary GST Returns in a timely manner?
- 2. Provident Fund:** Is the business entity paying Provident Fund (PF) to its employees (if eligible) and filing the necessary PF Returns in a timely manner?
- 3. Credit Ratings:** Have the Credit Ratings assigned to the business entity changed during the quarter under review? This could be either a Credit Rating upgrade / downgrade or a negative outlook being assigned to the business entity by the Rating Agency. The credit rating agencies considered are CRISIL, ICRA, CARE, India Ratings, Brickworks and Acuite Ratings.

The purpose of this exercise is to see if the business entities being monitored show

any deterioration or improvement from a statutory compliance or external credit rating perspective. There could be several reasons for non-compliance with statutory requirements for paying of GST and Provident Fund and filing the Returns. Of these, cash flow delays or liquidity problems that business entities face are probably the most important drivers for non-compliance. Similarly, changes in external Credit Ratings need to be examined closely in order to understand the reasons behind the change.

Suffice to say, a deterioration in any of the above parameters for the business entities should raise red-flags and serve as early warning signals for those monitoring the portfolio.

Rubix is pleased to release the its Quarterly Risk Transition Report covering changes in risk from Q4 FY 2020 to Q1 FY 2021.

Due to the outbreak of the Covid-19 pandemic in India, the Government had announced a variety of statutory relief measures (including extensions on GST and PF filing dates) commencing with effect from March 2020. We have considered new filing dates prescribed by the Government while computing compliance delays while preparing this Quarterly Risk Transition Report.

1 Quarterly Monitoring of GST Compliance:

The GST Quarterly Monitoring Report is prepared basis **9,558 business entities** whose **GST filing details were available for both Q4 FY 2020 and Q1 FY 2021**.

This helps ensure an apple-to-apple comparison between both quarters. These business entities belong to more than 30 sectors of the economy.

Each business entity is assigned a GST Compliance Score by Rubix based on

several factors including Average delay in filing of GST Return, Current delay in filing of GST return, Number of instances of delays in GST Return filings over the past 6 months, etc.

The change (Deterioration/ Improvement/ No Change) in the Rubix GST Compliance Scores between Q4 FY 2020 and Q1 FY 2021 of the 9,558 business entities is shown in the table below:

Change in Rubix GST Compliance Score between Q4 FY 2020 and Q1 FY 2021

Type of Change	Number of Business Entities	%
Deterioration	4,945	52% ↓
Improvement	1,040	11% ↑
No Change	3,573	37% ↔
Grand Total	9,558	100%

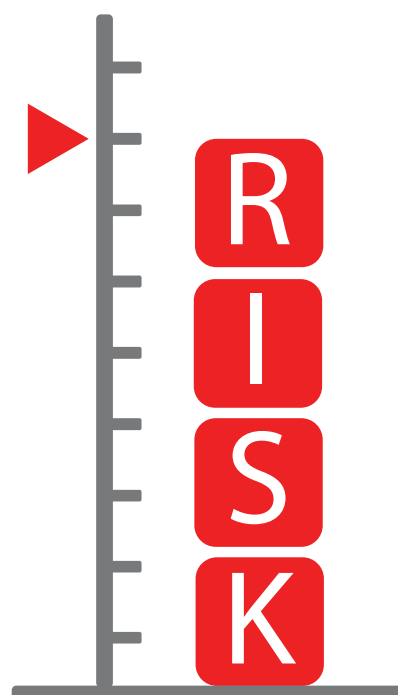
Summary of GST Compliance:

As indicated by the above table, **the Rubix GST Compliance Score of 4,945 Business Entities (52% of the total number being monitored) deteriorated between Q4 FY 2020 and Q1 FY 2021.** In the prior quarter, **only 19% of the businesses entities** had witnessed a drop in their Rubix GST Compliance Score.

With 52% of the businesses entities being non-compliant with timely GST payments and/or GST Return Filing in Q1 FY 2021 (versus only 19% in the prior quarter), we have clear evidence of the adverse impact that the Covid-19 pandemic has had on the financial health of business entities in India.

This is a critical early warning signal for monitoring the counterparty risk of these business entities.

There was an **improvement in the Rubix GST Compliance Score of only 11% of the business entities between Q4 FY 2020 and Q1 FY 2021 (versus 18% improvement recorded in the prior quarter)** while the Score remained unchanged for 37% of business entities (versus 62% unchanged recorded in the prior quarter).



2

Quarterly Monitoring of Provident Fund Compliance:




The Provident Fund (PF) Quarterly Monitoring Report is prepared basis **2,016 business entities whose PF filing details were available for both Q4 FY 2020 and Q1 FY 2021.**

Each business entity is assigned a PF Compliance Score by Rubix based on several factors including Average delay of days in filing of PF, Current delay of

days in filing of PF, Number of instances of delayed payments, Number of inactive establishment codes etc.

The change (Deterioration/ Improvement/ No Change) in the Rubix PF Compliance Scores between Q4 FY 2020 and Q1 FY 2021 of the 2,016 business entities is shown in the table below:

Change in Rubix PF Compliance Score between Q4 FY 2020 and Q1 FY 2021

Type of Change	Number of Business Entities	%
Deterioration	1,110	55% 
Improvement	406	20% 
No Change	500	25% 
Grand Total	2,016	100%

Summary of PF Compliance:

As indicated by the above table, **the Rubix PF Compliance Score of 1,110 Business Entities (55% of the total number being monitored) deteriorated between Q4 FY 2020 and Q1 FY 2021.** In the prior quarter, **only 21% of the businesses entities** had witnessed a drop in their Rubix PF Compliance Score.

With 55% of the business entities being non-compliant with timely PF payments and/or PF Return Filing in Q1 FY 2021 (versus only 21% in the prior quarter), we have clear evidence of the deterioration in the business environment, which continues to impact businesses even during the post-lockdown period.

This is a critical early warning signal for monitoring the counterparty risk of these business entities.

There was an improvement in the Rubix PF Compliance Score of only 20% of the business entities between Q4 FY 2020 and Q1 FY 2021 (versus 33% improvement recorded in the prior quarter) while the Score remained unchanged for 25% of business entities (versus 46% unchanged recorded in the prior quarter).



3 Quarterly Monitoring of External Credit Ratings:

The Quarterly Monitoring Report pertaining to external credit ratings has been prepared based on data from

929 business entities whose external credit ratings were available for both Q4 FY 2020 and Q1 FY 2021.

Change in Credit Ratings between Q4 FY 2020 and Q1 FY 2021

Type of Change	Number of Business Entities	%
Deterioration	31	3% ↓
Improvement	54	6% ↑
No Change	844	91% ↔
Grand Total	929	100%

As the above table indicates, of the 929 business entities that were monitored, the external Credit Ratings of only 31 companies (3%) deteriorated between Q4 FY 2020 and Q1 FY 2021. In the prior quarter, 12% of the business entities had witnessed a deterioration in their Credit Ratings.

Rubix believes that the full extent of Credit Rating downgrades is not visible during this quarter due to SEBI's temporary relaxation from complying with certain

provisions of SEBI (Credit Rating Agencies) Regulations, 1999 due to the COVID-19 pandemic and moratorium permitted by RBI.

We believe that the next quarter will witness more pressure on external Credit Ratings as the financial impact of the pandemic makes itself evident on business performance, forcing Credit Rating Agencies to reconsider the current credit ratings that they have assigned the business entities.

4

Extent of Risk Deterioration in Monitored Business Entities

We then wanted to study the extent of risk deterioration in the 9,558 business entities being monitored. For this purpose, we conducted an analysis to check how many of the three Risk Variables had deteriorated for each of the business entities. The three Risk Variables were

GST Compliance, PF Compliance and External Credit Ratings. The more the Risk Variables in which there is a deterioration, the higher is the Risk associated with the business entity.

The table below summarises the findings:

Deterioration in Risk Variables between Q4 FY 2020 and Q1 FY 2021	Number of Business Entities	%
No Deterioration in any Risk Variable	3,846	40% ↔
Deterioration in 1 Risk Variable	5,198	54% ↓
Deterioration in 2 Risk Variables	471	5% ↓
Deterioration in 3 Risk Variables	43	0.4% ↓
Grand Total	9,558	100%


As the table above indicates, **5,198 business entities (54% of the total) saw a deterioration in any one of the three Risk Variables.** This reflects a significant deterioration in the risk environment because only 20% of the business entities had seen a deterioration in any one risk variable in the prior quarter.

471 business entities (5% of the total) saw a deterioration in two Risk Variables,

compared with only 1% in the prior quarter. This is definitely a cause for concern and calls for much closer Risk Monitoring.

43 companies / firms (0.4% of the total) saw a deterioration in all three Risk Variables, compared with only 0.1% in the prior quarter. This indicates that their Risk is very high and their condition is precarious.



A person in a blue jacket and black beanie is rappelling down a rock face. The background shows a mountain range under a sunset sky.

Rubix Data Sciences Pvt. Ltd. helps you to take prudent credit risks, build a robust supply chain and monitor compliance for your business partners in India and around the world. Set up by highly experienced Risk Professionals who have worked extensively in the credit, legal and supply chain information domains, Rubix has been recognized as part of the 'Start-up India' scheme by the Department of Industrial Policy & Promotion (DIPP), Government of India, in 2018. The Rubix platform and its suite of reports, products and services are based on its extensive database of structured and unstructured data aggregated from over 100+ sources, customized predictive analytics and proprietary technology. Through its solutions, Rubix provides deep insights to Credit, Risk, Supply Chain and Compliance professionals, facilitating quicker and more effective decision-making.

Rubix Data Sciences Pvt. Ltd.

D-424 Neelkanth Business Park
Vidyavihar (W), Mumbai – 400 086,
India Phone: +91-22-49744274

Email: info@rubixds.com

Website: www.rubixdatasciences.com

