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Reassuring numbers CareEdge Ratings records an all-time high Credit Ratio

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BY OUR BUREAU

CareEdge Ratings logo

CareEdge Ratings recorded an all-time high Credit Ratio (ratio of upgrades to downgrades) at 3.74 times in H1 FY23.

This points toward a buoyant credit outlook, despite the prevailing geopolitical tensions and recessionary conditions in developed nations, the rating agency said.

The Credit Ratio is on an uptick from 2.64 times in H2 FY22 to 3.74 times in H1 FY23.

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Credit ratio for the Investment Grade (IG) and Below Investment Grade (BIG) portfolio in H1 FY23 was at the highest in the last decade at 3.90 times and 3.54 times, respectively, per the agency's statement.

"These numbers are reassuring and indicate that despite the turbulent global environment, amidst slowing growth in China and fear of recession in US and EU, the Indian economy is relatively better placed with GDP growth of 6.8 – 7 per cent expected in FY23", said Sachin Gupta, Executive Director and Chief Rating Officer, CareEdge Ratings.

With high-frequency economic indicators looking healthy and consumption and investment demand showing signs of picking up amid the easing of commodity prices, CareEdge Ratings believes that corporate India has remained stable and will continue to grow at a steady pace.

However, the agency remains cautious of the uncertain global environment and its repercussions on the Indian economy.

High upgrades

CareEdge Ratings' upgrades in H1 FY23 were mainly driven by post-pandemic broad-based recovery across sectors with the manufacturing sector's credit ratio at 4.59, leading to overall improvement in the credit ratio.

The sectors that saw high upgrades in this period were textiles, healthcare, steel, chemicals, auto and pharmaceuticals.

The upgrades in the manufacturing/services sector were on the back of significant deleveraging of corporate balance sheets and domestic demand recovery, supported by government initiatives helping the revival of the capex cycle.

The agency said the Banking & Financial Services (BFSI) sector credit ratio witnessed the sharpest improvement, moving up from 1.24 in H2 FY22 to 4.0 times in H1 FY23, driven by upgrades in NBFCs.

“Scaling up of operations amid waning of the pandemic related concerns in collections and significant equity infusions drove majority of the upgrades”, expressed Sanjay Agarwal, Senior Director, BFSI Ratings, CareEdge Ratings.

The credit ratio for infrastructure continues to be upbeat at 2.24 in H1 FY23, though with a slight moderation from the high of 3.17 in H2 FY22, with roads and renewables being the front-runners, followed by companies in EPC/Construction.

Enhanced pace of execution along with strong order inflows, commissioning of projects, operational projects recording robust revenues, refinancing of projects at better financing terms and structured financing avenues like InvITs drove upgrades in the infrastructure sector.

“Overall, the credit outlook remains stable with some hiccups. Healthy capital expenditure by the government and the likely improvement in private sector capex amid rising capacity utilisation levels should boost investment in the economy,” the agency said.

CareEdge Ratings expects the credit outlook to be stable with deleveraging of balance sheets and growth in domestic demand, supported by government initiatives.

However, the impact of the Russia – Ukraine crisis, volatility in commodity prices, inflationary pressures, rising interest rates, and weak

GDP growth in China along with recessionary fears in the US and EU are the key monitorables on credit risk.