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Rating upgrades reveal India Inc in better financial health

Synopsis
The industry credit ratio, a gauge for financial health measured as a proportion of upgrades vis-a-vis downgrades, surged 172 basis points year-on-year to 2.81, data from Prime Acuite Rating Database showed. Prime Acuite compiled data from seven local rating companies.

Rating companies are optimistic about higher ratings for borrowers, but surging inflation and its potential impact on growth could restrain the quantum of debt on balance sheets.

Financial health of Indian companies improved the most in nearly a decade, evident in the highest number of rating upgrades last fiscal, as most borrowers restrained expenses and sweated existing assets to lighten their balance sheets through the pandemic.

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One basis point is 0.01%.

This is possibly the highest level for the gauge in a decade. The data set was updated until March 29 of FY22.

"While consumer sentiment and demand are likely to improve this year, the uncertainty over Russia-Ukraine geopolitics and US Fed policy could play the spoilsport," said K Ravichandran, chief rating officer at ICRA Ratings. "With credit growth picking up, you can expect capex from renewable energy, steel, infrastructure (rail/road), oil and gas as select companies have adequately deleveraged last year."

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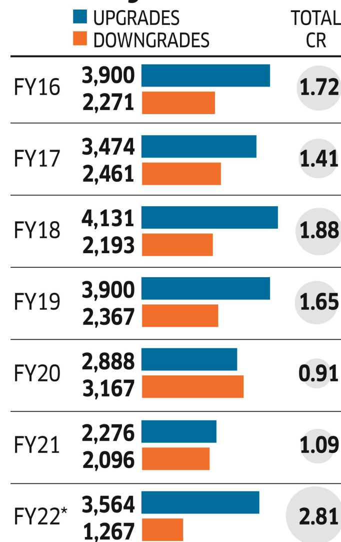

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“However, capex related borrowing would not be widespread but limited amid the evolving economic scenario," Ravichandran said.

The total number of upgrades was 3,564, versus 1,267 downgrades during FY22. This was in stark contrast to the preceding year, which witnessed 2,276 upgrades vis-à-vis 2,096 downgrades.

Chemical companies along with entities from pharmaceutical, ferrous metals, power, road and constructions sectors made up the largest share of upgrades.

“The uptrend in the credit quality can be attributed to higher demand with the economy opening up,” said Sachin Gupta, chief rating officer at CARE Ratings.

Government spending on infrastructure and dedicated schemes such as Atmanirbhar Bharat and Production Linked Incentives (PLI) has helped improve creditworthiness.

“The impact of the China + 1 strategy aided the recovery to a large extent,” Gupta said.

Several global companies are looking beyond China to prevent recurrence of supply disruptions caused in the immediate aftermath of the pandemic. India is set to benefit from such a de-risking strategy.

CareEdge Ratings has clocked a decadal high credit ratio at 2.64 in the second half of the fiscal year on a standalone basis, which points toward a positive

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“The sharp rise in the aggregate credit ratio for the credit rating agencies clearly reflects the steady revival of the domestic economy in FY22 despite a couple of bouts of the Covid pandemic,” said Suman Chowdhury, chief analytics officer, Acuite Ratings & Research.

“It also reflects the expectations of healthy growth in FY23 amid the government’s thrust on the infrastructure segment, solid coverage on vaccination, and moderate recovery in rural consumption,” he said.

Revival is, however, likely to be partly offset by high crude oil prices and higher than expected inflationary pressures. Higher commodity prices will also weigh on corporate margins, leaving companies with limited elbow room for passing on increased costs.

While local funding costs will likely rise this fiscal year, the US Federal Reserve policy on liquidity unwinding/rate increases would also help chart out future growth potential of companies.

Credit Ratio, according to Crisil Rating, may moderate due to two reasons: High commodity prices and lower cost savings due to higher travel-related expenses for corporate executives.

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