Covid third wave may pose threat to credit profile of India Inc

The segments which recorded the most improvements are construction, roads and power generation within infrastructure sector, **(AFP)**

2 min read . Updated: 02 Oct 2021, 01:55 PM IST

Nasrin Sultana

Care Ratings said that credit outlook of Indian companies is expected to be positive but third wave of the pandemic, if it assumes large proportions, is key monitorable and would be

As the credit profile of India Inc recovers from covid blow, another wave of the pandemic may pose a threat, according to Care Ratings. The rating agency said that credit outlook of Indian companies is expected to be positive, but the third wave of the pandemic, if it assumes large proportions, is key monitorable and would be a risk.

Credit ratio of companies rated by Care Ratings has recovered to 2.05 in the first half of the financial year 2022 from a sequential improvement of 1.27 in previous six months (October to December). Credit ratio of these companies were in downward trajectory in the earlier three half years. Credit ratio is number of upgrades to number of downgrades. A ratio of more than 1 indicates there are more upgrades than downgrades, and vice versa.

In the April-September period, Care Ratings upgraded ratings of 301 entities and downgraded ratings of 147 entities.

"Inspite of the recent second wave of pandemic, the economy seems to have embarked on the recovery path with most sectors recording improved performance. The uptick can also be seen with the core sector output growing by 11.6% in August 2021. Care's modified credit ratio (MCR) also improved from 0.92 in first half of FY21 to 1.11 in first half of FY22," it said. An MCR closer to one indicates higher stability in the ratings, with a larger proportion of reaffirmations. Majority of the entities (73%) saw their credit ratings by Care being reaffirmed in H1 FY22.

The uptrend in the credit quality can be attributed to the increase in demand (including pent up), incentives by the government like Atmanirbhar Bharat , government spending on infrastructure, benign interest rates, global pick-up in demand and impact of China-plus-on

The segments which recorded the most improvements are construction, roads and power generation within infrastructure sector, and pharmaceuticals, chemicals, steel and textile entities in the industrial sector. Downgrades were seen in non-banking financial companies (NBFC), hospitality and retail.

"The banking sector has largely witnessed retention of ratings with some upgrades due to improved capitalisation levels and lower than expected asset quality issues. MCR for NBFC sector is also improving, however remains below unity. The sector saw downgrades in this half year mainly due to deterioration in profitability due to higher credit costs, erosion of capital buffers, restricted physical movement of collection staff in the second wave of pandemic leading to weak collections and deterioration in financial and liquidity profile of the parent company," it said.