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India Inc's upgrades beat downgrades 3-5x

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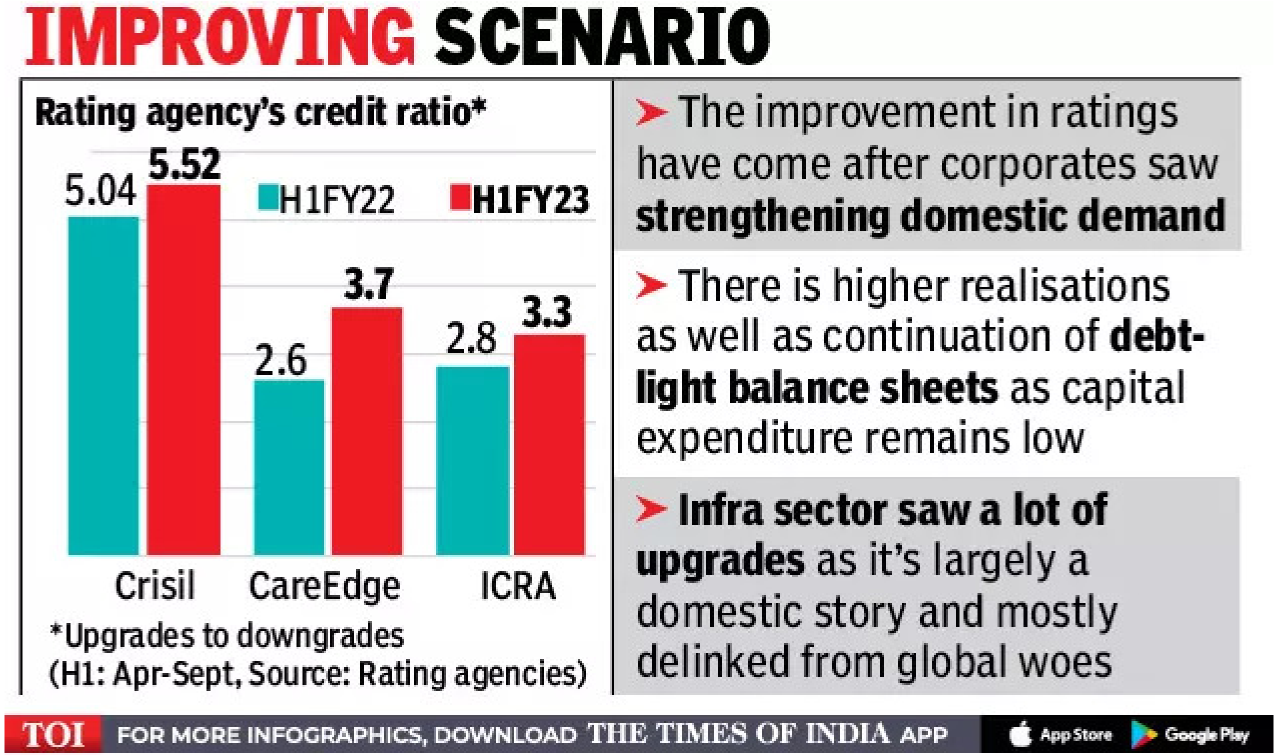
MUMBAI: India Inc continues to report an improvement in balance sheets on the back of the shedding of debt during the pandemic and an economic recovery led by domestic demand.
Three leading credit rating agencies on Monday reported a significant improvement in the creditworthiness of Indian coprorates. According to Crisil, the credit ratio (upgrades to downgrades) continues to be high at 5.5 times for the first half of FY23. The ratio was 5.04 in the second half of FY22. Nearly 80% of the corporates covered by Crisil had their ratings reaffirmed during the period.

CareEdge, meanwhile, said that it has clocked an all-time high credit ratio of 3.7 times for the same period. "The credit ratio is on an uptick from 2.6 times in the second half of the previous financial year to 3.7 times in H1FY23." In the first half of FY23, CareEdge Ratings upgraded ratings of 318 entities and downgraded only 85. Credit ratio for both — the investment grade and below-investment grade portfolio — was at the highest in the last decade at 3.9 times and 3.54 times.



Rating agency ICRA's numbers reveal that upgrades were over three times that of downgrades. ICRA upgraded the ratings of 18% of the entities in its portfolio. In the previous financial year, the agency had upgraded 19% of the companies in its portfolio. In absolute terms, 250 companies were upgraded in the first half of FY23 as compared to 76 downgrades, resulting in a credit ratio of 3.3%. In the preceding half year (H2FY22), there were 303 upgrades to 108 downgrades, resulting in a credit ratio of 2.8%.

Crisil attributes the improvement in credit quality to strengthening domestic demand, higher realisation and continuation of debt-light balance sheets as capex remains low."Around 35% of all upgrades were from the infrastructure sector (including large realty players). Infrastructure sector is in a unique position of largely being a domestic story and generally decoupled from the global headwinds. Here, upgrades were driven by improved operating cash flows, completion of crucial project milestones and equity infusion," said Crisil Ratings MD Gurpreet Chhatwal. He added that over the last few years, the share of government as a counter party has gone up.

CareEdge Ratings executive director & chief rating officer Sachin Gupta said, “These numbers are reassuring and indicate that despite a turbulent global environment, amid slowing growth in China and fear of recession in the US & the EU, the Indian economy is relatively better placed with GDP growth of 6.8-7% expected in FY23... CareEdge Ratings believes that corporate India has remained stable and will continue to grow at a steady pace.”

ICRA said the upgrade ratio was highest for real estate (15%), textiles (14%), roads (19%), engineering (12%) and construction (10%). “We forecast India’s GDP to grow by 7.2% in FY23 as against 8.7% in FY22 and -6.6% in FY21 as the demand for contact-intensive services remains buoyant and a pickup in private and government capital expenditure looks on the anvil. A significant hardening of interest rates, however, is a risk factor that would impact discretionary spending, make debt less affordable, and restrain capex,” said ICRA chief rating officer K Ravichandran.