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India Inc credit quality shows a rebound: Rating agencies

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ICRA has a positive outlook on sectors such as metals, oil and gas (upstream), roads (toll) and textiles (cotton spinning) | Photo Credit: undefined undefined

CRISIL attributes the performance to demand improvement, deleveraging by debt issuers, and relief measures by the government

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Two years since the pandemic started, credit quality of India Inc has improved, according to multiple rating agencies.

CRISIL Ratings' credit ratio (upgrades to downgrades) increased to 5.04 in the second half of FY22, as compared with 2.96 in the first half. This underscored continuing improvement in the performance of India Inc, the agency said on Friday.

A look back

	Upgrades	Downgrades
Crisil*	569	113
ICRA**	561	184
Ind-Ra**	276	86
CareEdge Ratings*	468	177

* During H2 FY22 ** During entire FY22

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Demand improvement

In all, there were 569 upgrades and 113 downgrades in the second half of the fiscal. The upgrade rate increased to 15.4 per cent in the second half from 12.5 per cent in the first half, while the downgrade rate declined to 3.1 per cent from 4.2 per cent in the same period.



“The performance comes on the pandemic levels), secular delever measures by the government (tha

The agency’s outlook on credit q

What ICRA says

Ratings agency ICRA, too, said I

to the challenges, and as the economic repair-work progressed, the incremental downside credit risks ebbed in the last fiscal,” it said.

The instances of downgrades of ICRA-assigned ratings in 2021-22 at 184 entities reflected a downgrade rate of a mere 6 per cent, it said, adding that this was substantially lower than the recent high of 13 per cent seen in 2019-20 and the past 10-year average of 9 per cent.

In contrast, the upgrade rate of 19 per cent, corresponding to upgrades of 561 entities, stood at a multi-year high compared to the past 10-year average of 11 per cent, ICRA said. Sectors such as ferrous metals, chemicals, power, pharmaceuticals and real estate, textiles had a high upgrade rate.

ICRA has a positive outlook on sectors such as metals, oil and gas (upstream), roads (toll) and textiles (cotton spinning). The agency has a negative outlook for airlines, airport, infrastructure, media (exhibitors), power (thermal) and power (distribution) sectors.

Experts said even by other barometers, domestic firms are on the mend. “India Inc is coming out of the pandemic. Corporate sector’s credit profile has improved, as has been noted by the interest cover for most sectors. Profitability has improved due to lower costs as well as a favourable interest rate regime provided by the Reserve Bank of India,” said Madan Sabnavis, Chief Economist, Bank of Baroda.

Ind-Ra view

According to India Ratings and Research (Ind-Ra), the corporate credit profile has posted its strongest performance in 2021-22. The agency’s corporate downgrade-to-upgrade (D-U) ratio is at a decadal low of 0.3 compared to 1.4 in 2020-21. “This marks a reversal of the past three years’ trend, where downgrades exceeded upgrades,” it said.

During 2021-22, Ind-Ra upgraded the ratings of 276 issuers, representing 23 per cent of the rated portfolio. Ratings downgrades were significantly lower, seen in only 86 issuers. “The downgrades and defaults were largely contained, due to the strong economic recovery and regulatory assistance in the form of liquidity support and one-time debt restructuring,” it said.

Supportive monetary and fiscal measures such as the Reserve Bank of India’s Resolution Framework 2.0 and Emergency Credit Line Guarantee Scheme (ECLGS), which has been extended till March 2023, have also provided much required liquidity to the vulnerable sectors, it further noted.

CareEdge Ratings

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CareEdge Ratings has clocked a decadal high credit ratio at 2.64 in the second half of the fiscal, which it said points towards a positive credit outlook. In the second half of 2021-22, the agency upgraded ratings of 468 entities and downgraded ratings of 177 entities. “The uptrend was contributed by upgrades in both, the infrastructure and manufacturing and services sectors,” it said, adding that the credit outlook is expected to be positive for India Inc with the domestic economy on a recovery path.

Russia-Ukraine conflict

Crisil, however, cautioned that the ongoing Russia-Ukraine conflict and the consequent surge in commodity prices can turn sectors such as diamond polishers, agrochemicals and ceramics vulnerable if supply-side challenges continue for long. “Oil and gas marketing companies may see their operating profit decline due to delays in retail fuel price increases, but their credit profiles will continue to benefit from government support,” it said.

CareEdge also said the global turmoil of the Russia-Ukraine crisis, sharp rise in commodity prices (especially oil), inflationary

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