India Inc’s credit profile improves marginally in Q3 but banks, auto, telecom industry still suffer

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In the third quarter of the current financial year, the credit rating of India Inc improved marginally as normalcy seemed to be returning steadily to businesses. Domestic rating agency CARE Ratings said that the credit quality as measured by its ‘modified credit ratio’ (MCR) has improved to 0.96, against 0.94 in the first two quarters of the fiscal year. Having MCR above 1 indicates improving credit

The October-December quarter witnessed 75% of the credit ratings being reaffirmed. "14% of the entities reviewed witnessed rating upgrades v/s 9% in the year-ago period while 11% of the entities saw a rating downgrade from 13% in Q3 2019-20," the report said.

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Credit quality bad for banks, autos

Among various industries, data compiled by CARE Ratings showed that 12 of the 31-key sectors had an MCR of above 1 while for the remaining 19 the MCR was below 1. The sectors where improvement was registered included agriculture and allied activities, cement, education, electrical equipment's, electricity generation, healthcare, IT, iron and steel, paper and paper products, pharmaceuticals, rubber and plastic products and sugar. On the other hand, sectors under pressure or having MCR below 1 with deteriorating credit quality included telecom, transportation and storage, real estate activities, construction, auto, hospitality, NBFCs and wholesale and retail trade.

"The auto sector was already grappling under weak demand conditions in FY20 and the lockdown due to COVID 19 further worsened the off-take affecting the credit profile of the sector," the rating agency said. Meanwhile, it added that the credit profile of the construction sector was mainly impacted by stressed liquidity position, cost over-runs, delays in project execution, high receivables among other factors. "Hospitality was also one of the worst-hit sectors due the restriction imposed on its operations and saw a large number of downgrades," the report added.

SME fare better than large entities

Small and medium enterprises (SME) fared better than large businesses when compared for credit quality. Although down on-year basis the MCR of SME segment was still at 1, indicating stability in the credit profile of these entities. Large enterprises, on the other hand, were at 0.94, 3 bps lower than that in the comparable period of a year ago. "Given the higher share of the large enterprises (81%) in the total portfolio of entities whose ratings and financial position was reviewed in Q3 2020-21, the credit quality pressures of this segment weighed down the overall credit quality," CARE Ratings said.