Debt quality of cos improves in Jun qtr

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MUMBAI

Sectors that saw most upgrades included pharma. REUTERS

Credit rating upgrades of corporates by multiple agencies outpaced downgrades in the June quarter, indicating rising debt servicing ability despite the second wave of covid.

According to analysts, even though regulatory measures helped cushion the covid impact, larger firms were more resilient than smaller peers.

Icra upgraded ratings of 142 entities and downgraded 82 entities in April-June. "On the reasoning for upgrades in Q1 FY22, a longer track record of operations is seen to be the trigger in a large number of cases (particularly in power and roads sectors). The second has been a rising scale of operations and order book (chemicals, pharma, construction). The third has been favourable corporate actions (ownership change, etc.). In Q1 FY22, while there was no material distinction between the downgrade rating actions in the investment grade and non-investment grade categories, the investment-grade entities clearly experienced a much

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greater improvement in their credit profiles, resulting in a dominant share in the upgrades," said Jitin Makkar, head of credit policy at Icra.

Makkar said upgrades have been exceeding downgrades since last November but have mostly been due to firm-specific factors instead of being driven by a broader economic recovery or sector-related tailwinds.

Care Ratings upgraded 106 companies and downgraded 79 in the June quarter. Sectors that saw the most upgrades were pharma, chemicals, construction, ceramics and roads, while hospitality, NBFCs and gems and jewellery saw most downgrades.

"However, small and medium enterprises are in a more vulnerable position as they are unable to pass on the shock in their operating environments and we observed many SMEs turning non-cooperative during this quarter and even during FY21, reflecting this stress," said Sachin Gupta, chief rating officer, Care Ratings. Loan guarantee scheme for covid-hit sectors, emergency credit lines and the Aatmanirbhar Bharat Scheme helped companies, he added.

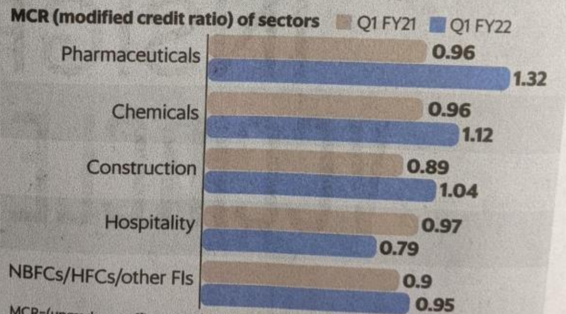
During the June quarter, India Ratings upgraded ratings of 86 issuers and downgraded 26. This is in stark contrast to last year when it downgraded 59 and upgraded 26.

Issuers in consumer discretionary sectors like hospitality and realty continued to face operational constraints during the second wave. For others, the rating actions were driven more by individual issuer-related pressures on operations and financial metrics and not due to any sector-related concerns, said Suparna Banerji, associate director at India Ratings' Credit Policy Group.

"Sectors that saw a stronger-than-expected business recovery in 1Q'22, supported by improving demand outlook, faced higher upgrades," said Banerji.

Risk perception

Pharma, chemicals and construction saw most upgrades, while hospitality and NBFCs saw most downgrades.



MCR=(upgrades+reaffirmations)/(downgrades+reaffirmations)
NBFCs: non-banking financial institutions; HFCs: housing finance institutions
FI: financial institutions

Source: Care Ratings

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