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How will a sliding Rupee impact the credit ratings of companies?

By Saikat Das, ET Bureau Last Updated: Jul 01, 2022, 06:39 PM IST

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Synopsis

Computer hardware, steel, fertiliser, and coal importers face a possible downgrade, while companies from sectors such as pharma, paper, tea and textile firms may benefit from an upgrade, said, chief rating officers. Even the outlook can be revised.



The rupee lost more than 6 per cent this calendar year and ranks among the worst-performing Asian currencies. It hit a new lifetime low at 79.12 a dollar on Friday.


Rising interest rates and a sliding [rupee](#) could hurt Indian companies that binged on overseas loans riding low interest rates as rating companies begin to relook at them. Companies with a major component of their revenues generated in rupees will be more vulnerable to a downgrade.

Computer hardware, steel, fertiliser, and coal importers face a possible downgrade while companies from sectors such as pharma, paper, tea and textile firms may benefit with an upgrade, said chief rating officers. Even the outlook can be revised.

“We have begun the process of assessing rupee’s depreciation on our universe of companies with offshore payables and receivables,” said K Ravichandran, chief ratings officer at [ICRA](#). “We are going by each sector, assessing external foreign currency debt and net dependence on imports and exports in detail.”

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Presented By

 **Jigar Mistry**
Co-Founder & Director, Buoyant Capital

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"In a couple of weeks, we should be able to complete the portfolio review," he said.

A company with no natural hedges and partly hedged external borrowings become a potential candidate for rating downgrade if its revenues are fully realised in rupees. Sometimes, a company only covers currency risk for its interest payments to overseas subscribers to its bonds and the principal is left uncovered.

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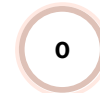
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“We are now closely evaluating the impact of the rupee’s rout on local companies,” said Sachin Gupta, chief rating officer at CARE Rating. “A dollar-denominated borrowing, coupled with immediate impact of inflation, is a double whammy on companies that source revenues fully in rupees.”

“Companies rated in the lower rank of Investment Grade and High Yield category may face rating downgrades first due to the rupee depreciation,” he said.

This means, companies rated BBB+, BBB and BBB- along with BB+, BB or BB- are prone to rating actions.

The [credit rating ratio](#), or upgrades over downgrades, dropped 83 basis points in the June quarter. The gauge is at 2.73 versus 3.56 in March quarter, according to Prime Acuite Database.

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