Global Headwinds Intensify – Can India Inc Stay the Course?

Webinar on CareEdge Ratings' Credit Quality Assessment for H2FY26

April 2, 2026

Key Highlights

- Geopolitical tensions have **intensified**, heightening risks from **energy price** surge, **exchange rate** rise and **supply-chain disruptions**
- Prolonged West Asia crisis may exert pressure on Indian macro indicators like CAD, GDP growth, fiscal metrics
- CareEdge Ratings' **Credit Ratio** moderated to **1.93** in **H2FY26** from **2.56** in H1FY26
- **Manufacturing and Services** Credit ratio **remained healthy** at **2.06** in H2FY26 from 1.72 in H1FY26
- **Infrastructure** Credit Ratio **normalized** to **1.67** in H2FY26, from 8.54 in H1FY26
- **BFSI** Credit Ratio **improved** to **2.25** in H2FY26 from 2.10 in H1FY26
- **Global turmoil**—geopolitics, energy prices, rupee depreciation, slowing FPI inflows, —remain key risks to outlook

BFSI: Banking, Financial Services, and Insurance; CAD: Current Account Deficit

Economic Headwinds Intensify Amid West Asia Conflict

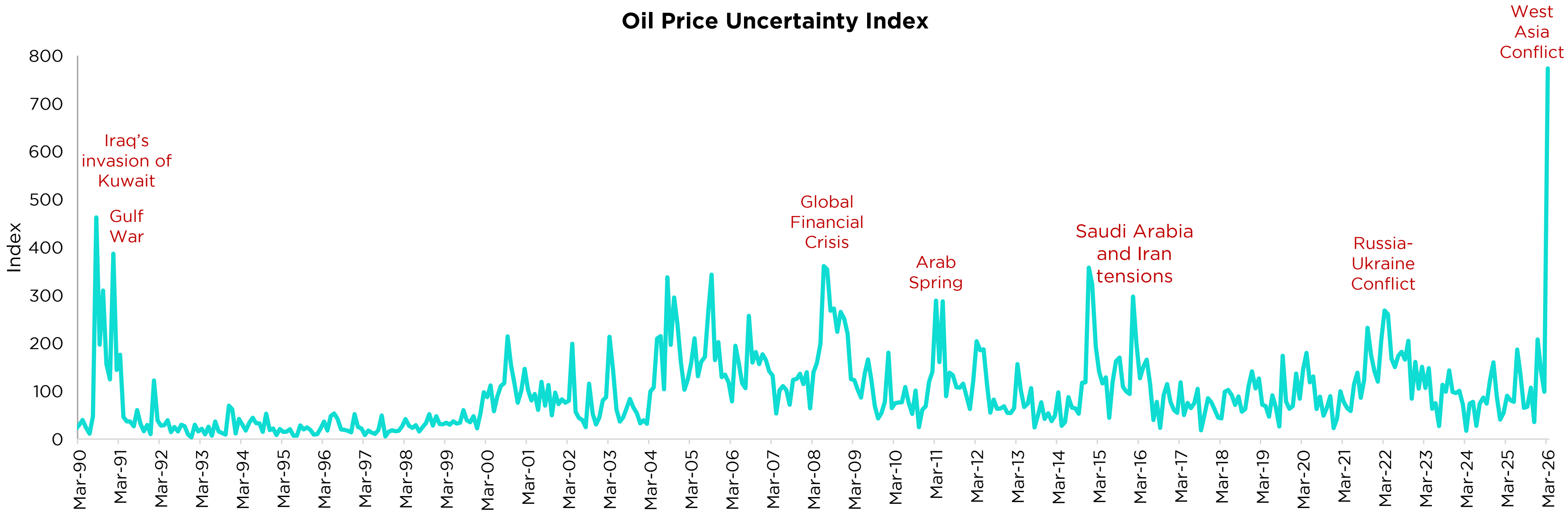
Economic Headwinds Intensify Amid West Asia Conflict

- The ongoing conflict in West Asia has resulted in a drastic jump in international energy prices, with Brent crude oil and Liquefied Natural Gas (Japan-Korea Marker) having shot up by 55% and 90%, respectively, since the beginning of the conflict.

- Unlike the early phase of the Russia–Ukraine conflict, the recent hostilities have disrupted trade routes and triggered supply-side constraints, with multiple energy extraction and production facilities going offline.

- Given the time required to restore these capacities and the threat of further disruptions, energy prices are likely to remain elevated even if the conflict de-escalates early in FY27.

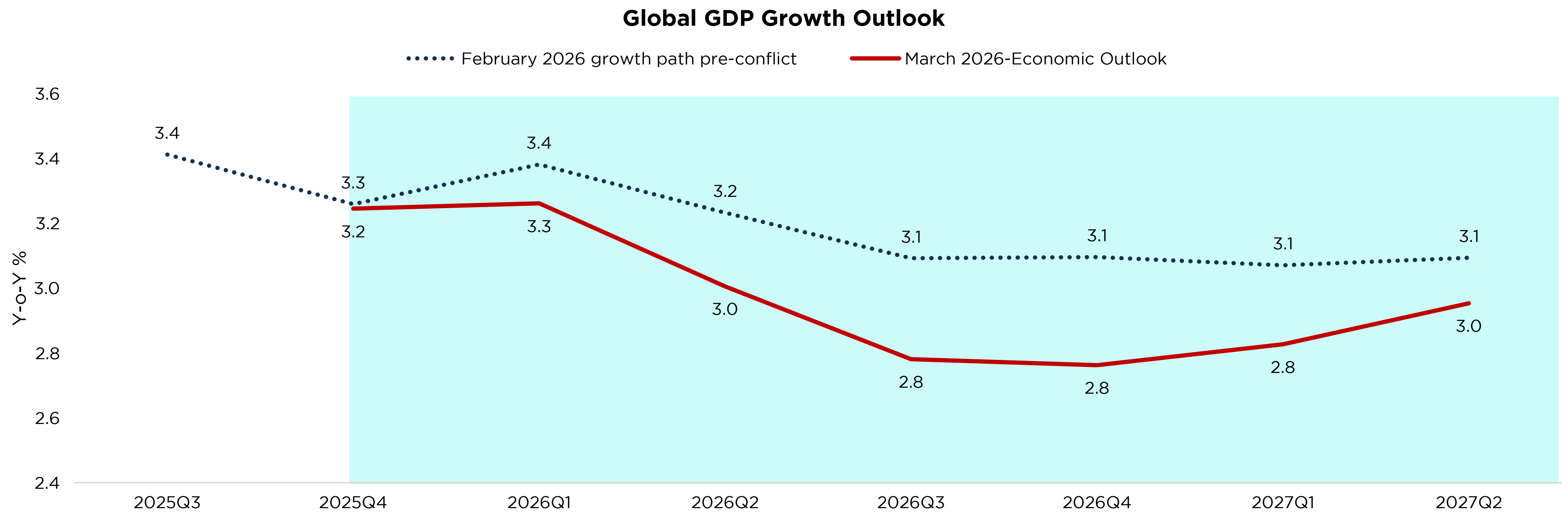
West Asia Conflict Shoots Up Oil Price Uncertainty



Source: Oil Price Uncertainty Index

- The index quantifies uncertainty in the oil markets by assessing count of words in newspapers/articles that could signal oil price uncertainty during major geopolitical and economic disruptions.
- The global oil price uncertainty index has jumped to the highest-level following concerns around the West Asia conflict.

Global Growth Forecasts Lower Vs Pre-Conflict Growth Path

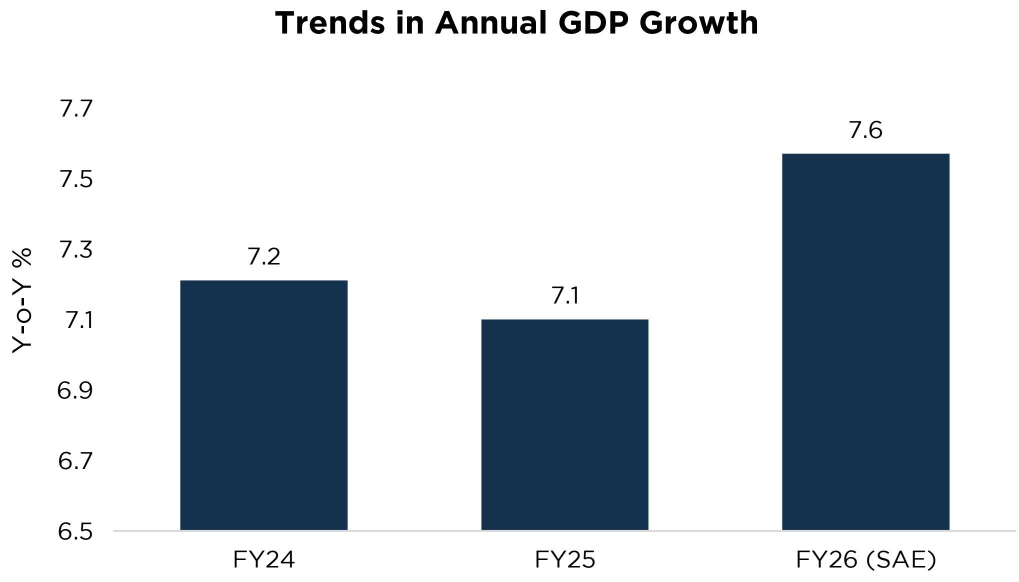


Source: OECD Interim Economic Outlook

- The OECD projects quarterly global growth throughout 2026 to be lower Vs the pre-conflict growth path.

Domestic Growth Was Steady Pre-Conflict

Source: CMIE, CareEdge; Note: Average growth pertains to Q1 FY24 to Q3 FY26



Source: CMIE, CareEdge; Note: (SAE): Second Advance Estimate

- India's GDP growth recorded at 7.8% in Q3 FY26 supported by encouraging consumption and investment scenario.
- Overall, FY26 GDP growth was estimated at 7.6% as per the Second Advance Estimate.
- While growth momentum remained relatively resilient in FY26, India has stepped into FY27 amid an extremely challenging global landscape.

Implications of the West Asia Conflict on India's Macro Fundamentals

Implications of the West Asia Conflict on India's Macro Fundamentals

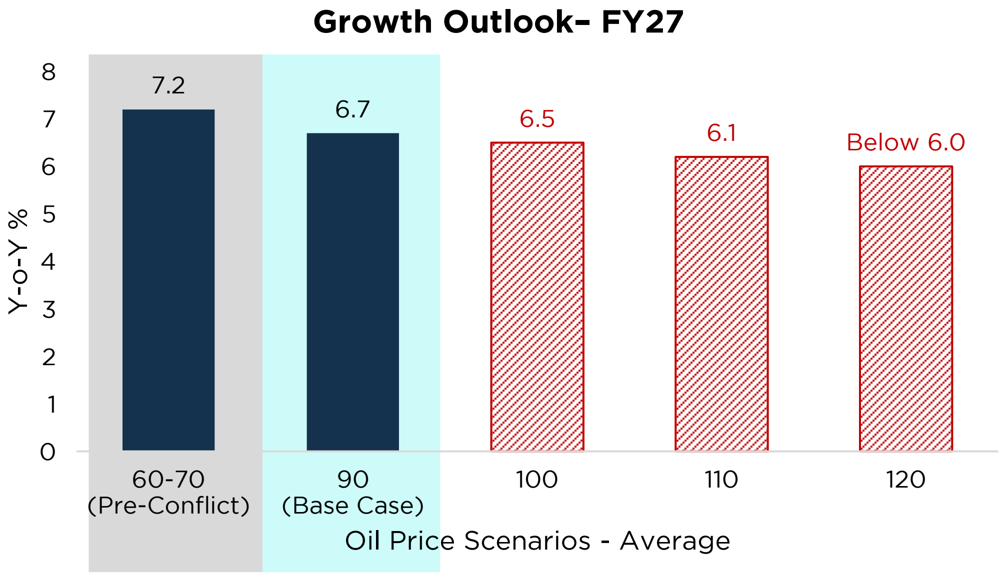
CareEdge RATINGS

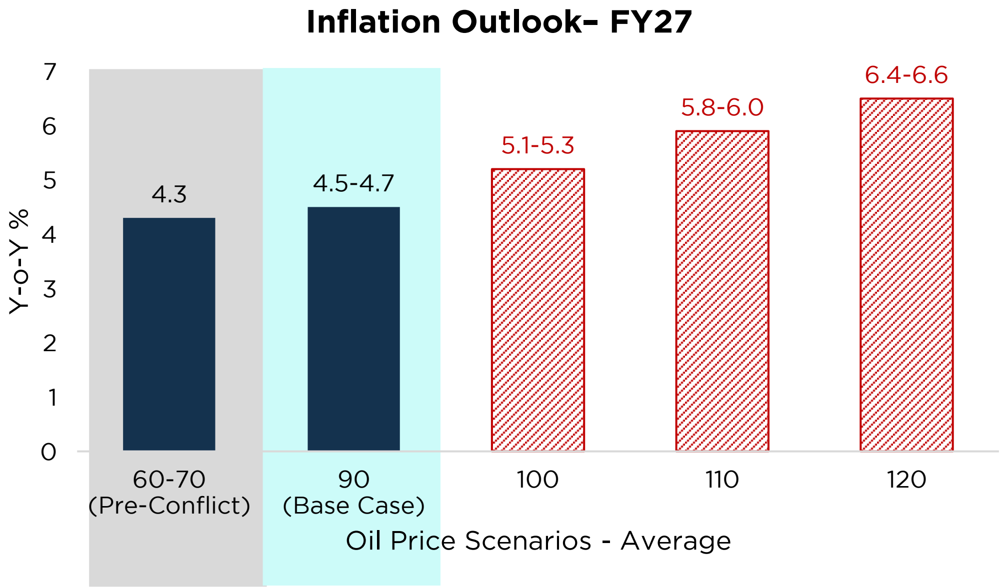
Summary of CareEdge Projections – FY27					
Average Crude Price	**GDP Growth**	**CPI Inflation**	**CAD**	**USD/INR**	**10Y G-sec**
USD/bbl	**Y-o-Y %**	**Y-o-Y %**	**% GDP**	**Rate**	**%**
60-70 (Pre-Conflict)	7.2	4.3	1.0	89-90	6.6-6.8
90 (Base Case)	6.7	4.5-4.7	2.1	92-93	6.8-6.9
100	6.5	5.1-5.3	2.5	94	7.0-7.2
110	6.1	5.8-6.0	3.0	96	7.2-7.4
120	Below 6.0	6.4-6.6	3.4	98	Above 7.4

Source: CareEdge Projection; Note: All projections represent the average for FY27

- West Asia conflict is expected to impact India through multiple channels.
- Our impact assessment to evaluate India's macroeconomic outcomes are based on four oil price scenarios (base case assuming oil averaging USD 90/bbl and extreme case with oil averaging USD 120/bbl in FY27).

FY27 Growth & Inflation Outlook Clouded by Global Conflict



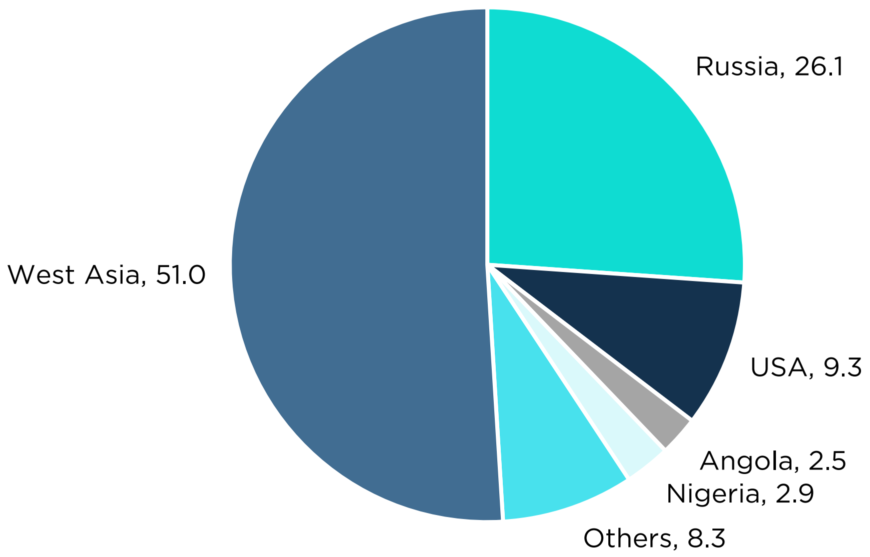


Source: CareEdge Projection

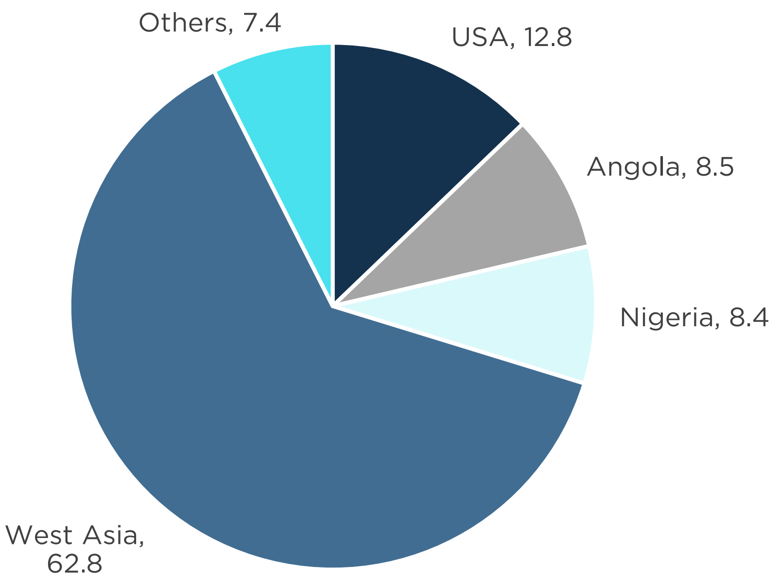
- As per our base case scenario for FY27, if the global crude oil prices average at USD 90/bbl for the full year, we estimate India's GDP growth to moderate to 6.7%. This represents a downward revision from our pre-conflict growth forecast of 7.2%.
- In an extreme case scenario where global crude oil prices average around USD 120/bbl in FY27, we see GDP growth dropping below 6%.
- CPI inflation projected to range between 4.5-4.7% assuming limited pass-through of higher global crude oil prices to the consumers.
- In an extreme situation, if global crude oil prices average at USD 120/bbl in FY27, we could also see some demand destruction which will keep inflation in the range of 6.4-6.6%.

India's High Reliance on West Asia for Energy Imports

India's Petroleum Crude and Products (POL) Import Breakup (%) – Apr-Jan FY26



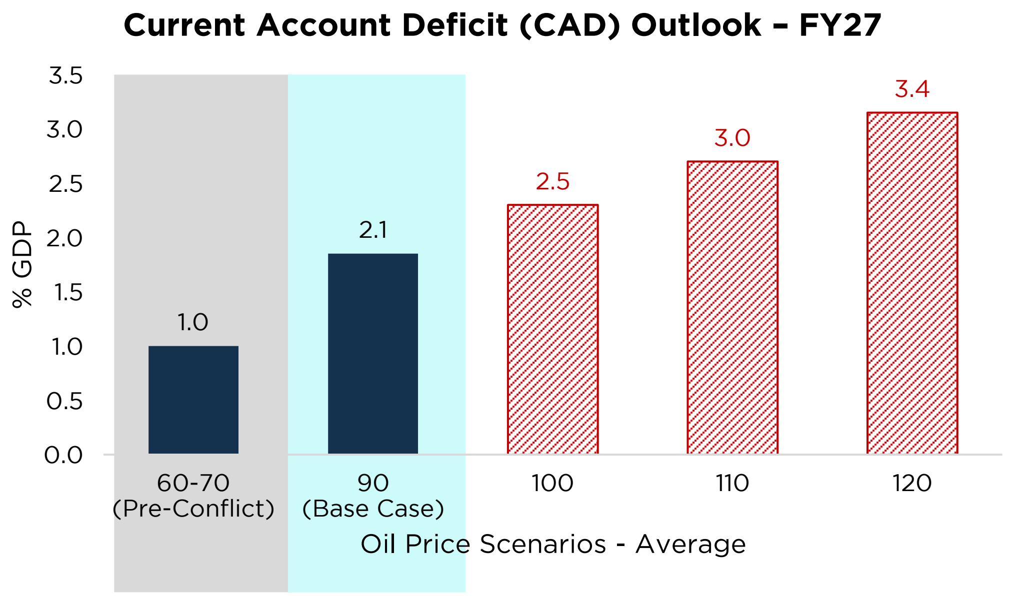
India's Imports of LNG Breakup (%) – Apr-Jan FY26



Source: CMIE; Note - Data represents share in quantity imported; West Asia comprises of Saudi Arabia, UAE, Kuwait, Qatar, Iraq, Oman, Iran and Israel.

- India has high import dependency for meeting its oil and gas requirement.
- India has imported 51% of its crude oil and 63% of its LNG imports from West Asia.

External Sector Faces Pressures from Global Challenges

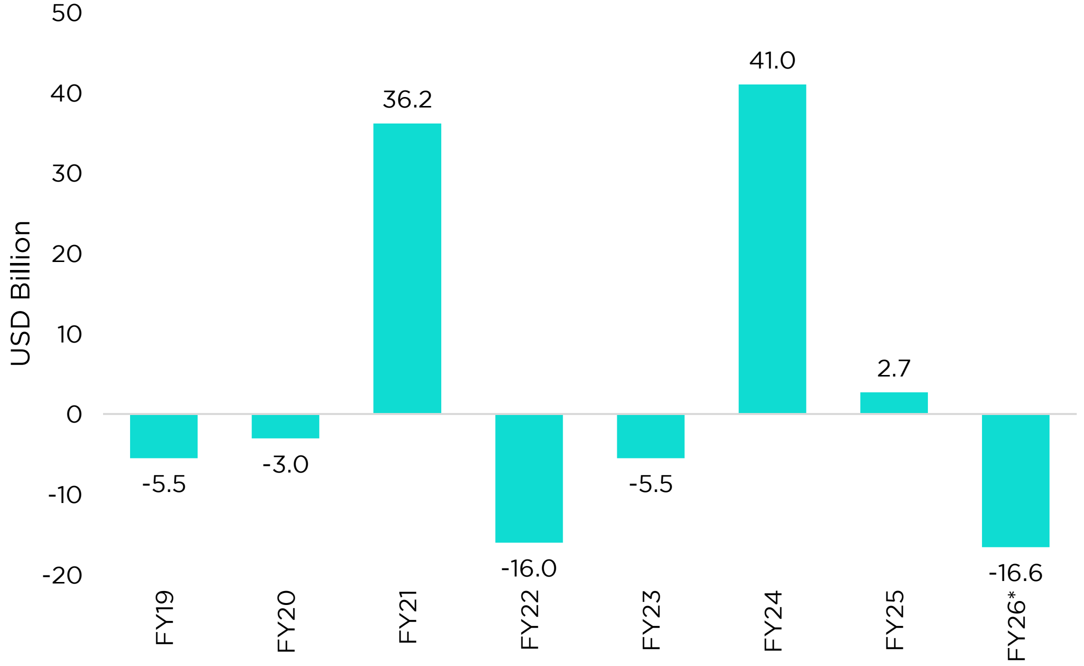


Source: CareEdge Projection

- India’s current account deficit is expected to face challenges amid the ongoing global turmoil, given its high energy dependence.
- Furthermore, there are two additional risks stemming from India’s exposure of merchandise exports and remittances to West Asia.
- Factoring global crude oil prices averaging at USD 90/bbl for the full year, along with some pressure on exports and remittances, we estimate India’s CAD to widen to 2.1% of GDP (Vs our pre-conflict projection of ~1%).

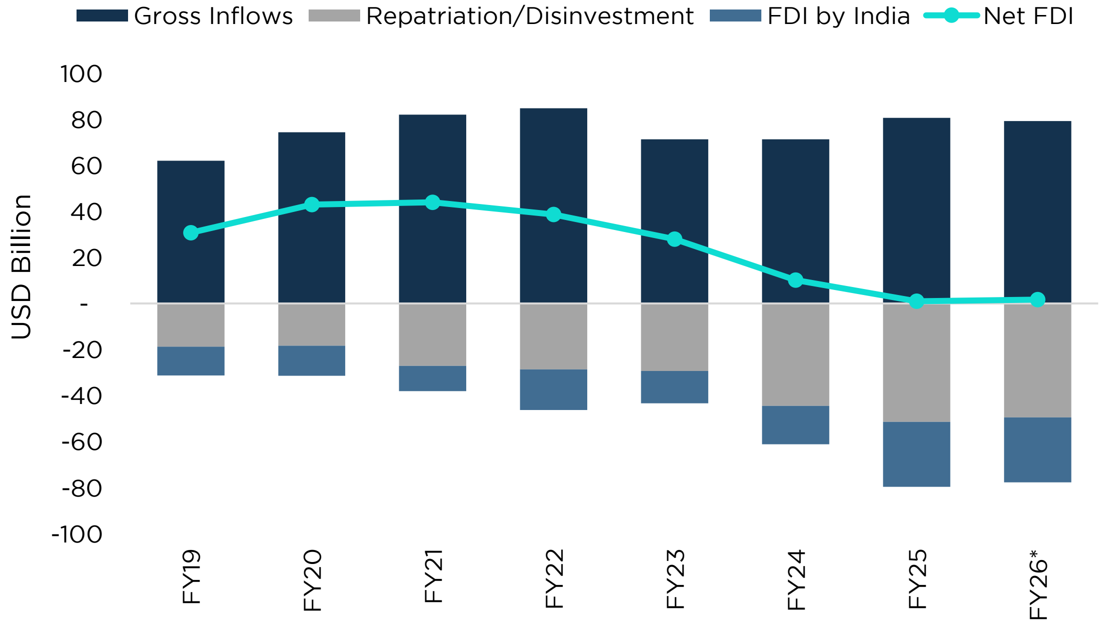
External Sector Faces Pressures from Global Challenges

Trends in Net FPI Flows



Source: NSDL, CEIC, CareEdge; *Data for FY26 is up to March 30, 2026

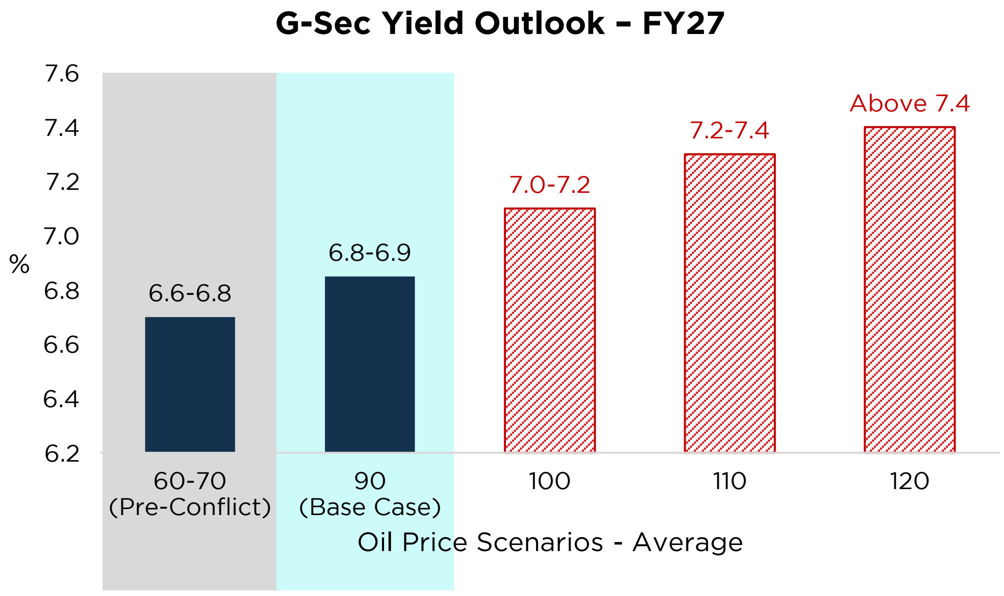
Trends in Foreign Direct Investment (FDI)



Source: CMIE, CareEdge; *Data for FY26 is for April-Jan period

- While CAD is facing widening pressures, India’s capital flows have also come under pressure amid moderating net FDI and volatile FPI flows.

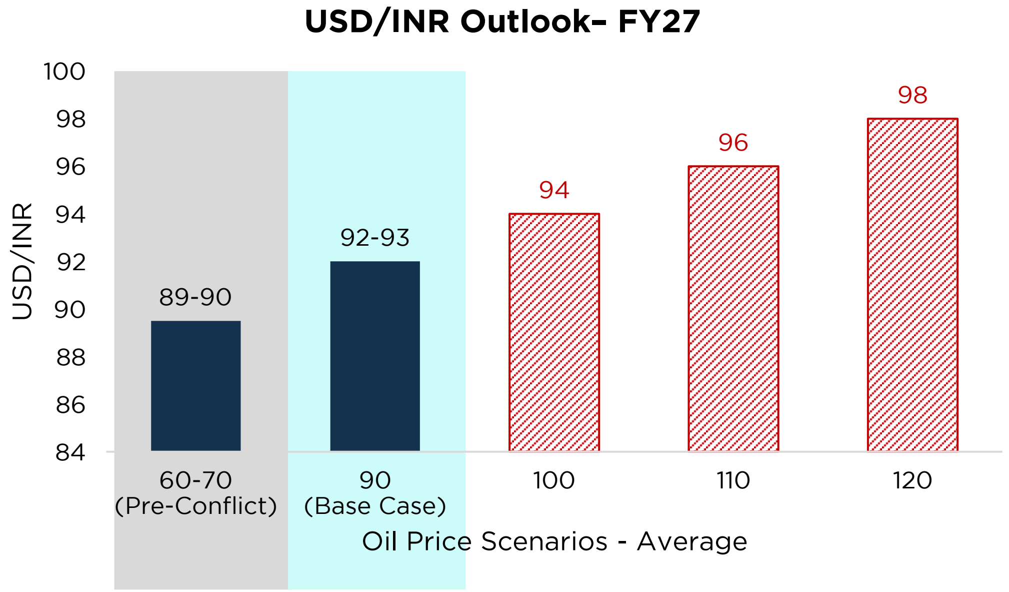
G-Sec Yields Under Pressure



Source: CareEdge Projection

- G-sec yields to face upward pressure amid the ongoing global uncertainty, rising fiscal burden and inflationary pressures.
- As per our base case scenario, we expect G-sec yields to average 6.8 – 6.9% over the year, assuming early resolution of the conflict. However, should oil average USD 120/bbl through the year, rising fiscal pressures would push yields above 7.4%

Rupee Under Pressure



Source: CareEdge Projection

- Weakness in foreign investment flows, pressures on the current account deficit and global risk-off sentiment have kept the rupee under pressure.
- If the conflict ends soon and crude oil averages USD 90/bbl in FY27, we project the rupee to average around 92-93.
- However, if the conflict intensifies, leading to oil prices averaging at a high of USD 120/bbl in FY27, we project the rupee to average close to 98 over the year.

Looking Ahead the External Risks Remain a Key Watchpoint

- Assuming crude oil to average at USD 90/bbl, we project FY27 GDP growth to be at 6.7%. CPI inflation projected to range between 4.5-4.7% assuming limited pass-through of higher global crude oil prices to the consumers.
- We project India's CAD to widen to 2.1% of GDP in FY27. However, adequate forex reserves provide cushion against external shocks.
- Fiscal burden in FY27 estimated at around 0.5% of GDP. Continued fiscal consolidation amid the required fiscal support remains a challenge.
- RBI to pause rate cuts in the upcoming April meeting amid rising inflationary pressures from higher energy prices.
- India benefited from fall in tariff rates after SCOTUS decision on IEEPA tariffs, but uncertainty remains.

CAD: Current account deficit; SCOTUS: Supreme Court of the United States of America; IEEPA: International Emergency Economic Powers Act

Sectoral Impact of the West Asia Crisis

Sectoral Impact of the West Asia Conflict: Risk–Resilience Matrix

CareEdge RATINGS

Framework Overview

CareEdge Ratings has developed a **'Risk Resilience Matrix**' to analyse the impact of the West Asia Crisis.
- This includes a study of 27 sectors impacted by the conflict.

Parameters for impact assessment and key determinants

Impact (X-axis)

- Represents the degree of impact on sectoral entities, factoring in effects on operations, profitability, cash flows, and overall business continuity.
- Sectors facing severe disruption are classified under high-impact categories.

Sector Resilience (Y-axis)

- Captures the ability of sectors to absorb the risks considering inherent risk appetite of the sector, like ability to pass-on price hikes, structural importance of the sector, balance sheet strength and parent support.

How to Read the Matrix

High Impact – Low Resilience: Elevated credit risk; close monitoring warranted (Top right red quadrant)
Low Impact – High Resilience: Defensive or relatively insulat4ed sectors (Bottom left green quadrant)
Medium to High Impact – Medium to Low Resilience: Moderate credit risk (Amber quadrants)

Sectoral Impact of the West Asia Conflict: Risk-Resilience Matrix

Sector Resilience \ Impact	Low	Medium	High
Low	-	-	• Airlines • Petrochemicals • Ceramics • Glass
Medium	• Steel • Diamond	• Gas Distribution • Cement • Construction sector • Auto • Specialty Chemicals • Semiconductor & Electronics • Paints • Pipes & tubes • Hotels/Restaurants • Aluminium extruders	• Oil Marketing Companies • Fertilisers • Synthetic Textiles • Tyres • Packaging • Basmati Rice (exports)
High	• Upstream Oil & Gas • Thermal & Renewable Power • Pharma • Coal Mining • Shipping	-	-

Key Takeaways from the Risk-Resilience Matrix

High Impact – Low Resilience (Top-right quadrant)

- **Airlines:** ATF constitutes 35-40% of operational costs, making airlines highly vulnerable to crude price spikes. Airspace closures and rerouting increase fuel burn and flying time. Profitability is further strained by rupee depreciation due to FX exposure from aircraft leases and imported ATF.
- **Petrochemicals:** High dependence on crude oil and natural gas as primary feedstocks. A surge in global crude prices directly escalates production costs, severely compressing margins as these sudden cost hikes cannot be swiftly passed down the value chain.
- **Ceramics**: Significant curtailment in gas supply (50–80%) disrupts operations, with alternative fuels increasing costs and operational inefficiencies. Supply disruptions or price surges will force plants to lower utilization rates.
- **Glass:** Similar to ceramics, glass manufacturing requires continuous gas or Furnace oil and cost may spike significantly or players may face availability pressure

Key sectors with overall Moderate Impact

- **Oil Marketing Companies:** Direct exposure to crude oil price volatility and potential supply disruptions from West Asia significantly impacts input costs and inventory valuations. Ability to pass on price changes (albeit with some lag) and strong government backing provide partial cushion, though margins can be volatile in the interim.
- **Fertilizers:** Dependence on gas and imports (with ~30% of requirements imported and exposure to the Middle East) drives input cost volatility and supply risks. Subsidy support cushions profitability, though elevated gas prices can increase working capital needs and strain liquidity.
- **Synthetic Textiles:** With 70-80% of production costs tied to crude oil derivatives, spiking energy prices heavily impact cost structures. Firms possess some pricing power, but passing costs onto consumers happens with a lag.
- **Tyers:** Roughly half of operating expenses are linked to crude oil prices. Passing these elevated costs to OEMs involves a significant lag compared to the replacement market, putting near-term pressure on profit margins.
- **Packaging:** High dependence on crude derivatives exposes the sector to significant input inflation. While some pass-through is feasible, pricing power is contingent on market conditions and may be limited beyond a point, leading to margin pressure.
- **Basmati Rice:** Heavy reliance on West Asia (70–72% of exports) exposes the sector to logistical disruptions, higher freight costs, and elongated working capital cycles.

ATF: Aviation turbine fuel, FX: Foreign exchange; OEMs: original equipment manufacturers

Key Takeaways from the Risk-Resilience Matrix

- **Gas Distribution:** Reliance on imported LNG exposes the sector to supply constraints, especially in the industrial segment. Margins remain relatively cushioned as alternate crude-linked fuels also become costlier, sustaining gas competitiveness.
- **Cement:** Sharp coal price spikes are pressuring costs; near-term impact is cushioned by inventories. Medium-term profitability hinges on successful price hikes, failing which margins could decline from Q2 FY27.
- **Construction**: Companies with significant exposure to West Asia face elevated risks of project delays, execution disruptions, and slower receivables due to geopolitical instability. Revenue visibility and cash flow cycles could be adversely affected, particularly if disruptions are prolonged.
- **Auto**: Limited direct Gulf exposure, but MSME ancillaries are vulnerable to disruptions in gaseous fuels and crude-linked input costs. Margin pressures persist, though strong domestic demand, OEM strength, and policy support provide resilience.
- **Paints & Specialty Chemicals**: High dependence on crude derivatives drives input cost pressures. Intense competition and weak discretionary demand limit full cost pass-through, compressing margins.
- **Semiconductor & Electronics**: USA is a major producer of natural Helium, a critical element in semiconductor manufacturing, making the supply chain highly sensitive to broader geopolitical shifts and elevated air/sea freight costs.
- **Pipes & Tubes:** Export exposure to the Middle East and potential logistics disruptions may affect demand, though domestic demand remains stable. Predominant reliance on electricity and moderate export share (10–20%) provide cushioning, with limited immediate disruption from gas availability.
- **Hotels/Restaurants**: Cancellations, reduced international traffic, and shifting tourist preferences can lead to occupancy declines and pricing pressure.
- **Aluminium Extruders**: Exposure to rising aluminum prices and limited dependence on gas (with electricity as primary energy) moderates operational disruption. India’s cost competitiveness in primary and secondary aluminum, along with strong domestic demand, supports the sector despite potential demand moderation.

Key Takeaways from the Risk-Resilience Matrix

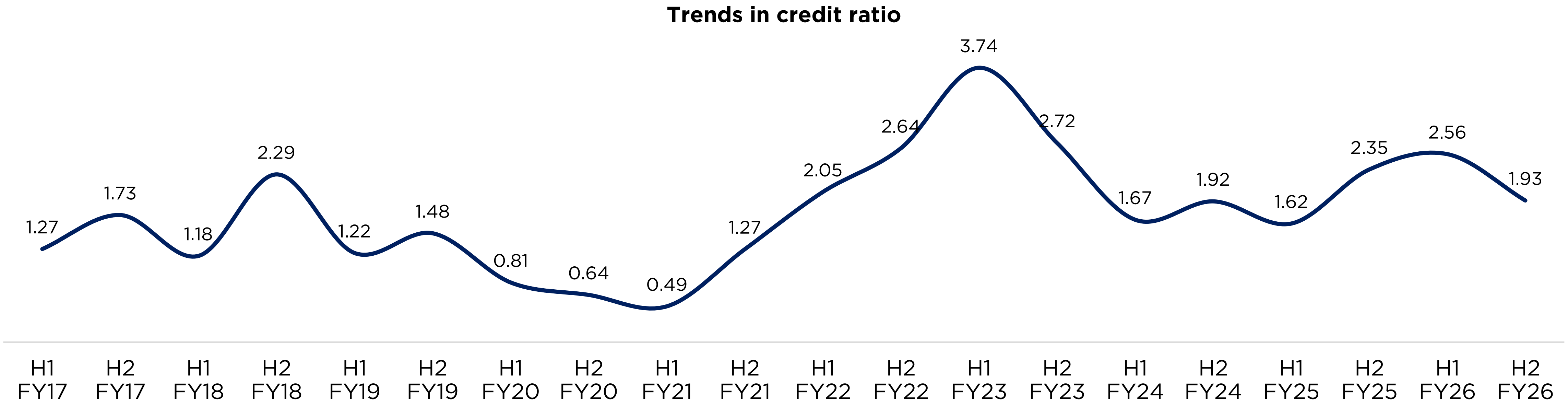
- **Steel:** Limited reliance on the Gulf, with key raw materials sourced globally and domestic iron ore availability. Low export exposure to the Middle East (<10%) and strong domestic demand support volumes; safeguard duties offer partial protection against global dumping pressures.
- **Diamond:** Minimal direct Gulf exposure, with the region primarily serving as a trading hub that can be substituted by alternate centers. Low freight intensity and diversified revenue streams (including gold jewelry), along with low leverage, underpin medium resilience.

Low Impact – High Resilience (Bottom left quadrant)

- **Upstream Oil & Gas:** This sector benefits directly from the crisis. A rise in global crude oil prices translates to higher realizations and increased revenue against largely fixed extraction costs, significantly boosting profitability.
- **Coal Mining/Thermal & Renewable Power:** These domestic energy sectors are largely insulated from geopolitical shocks because they rely almost entirely on localized resources (domestic coal, solar, and wind),.
- **Pharma:** An essential, highly defensive sector. Key starting materials (KSMs) and APIs are primarily sourced from China and other geographies, preventing shortages of crude-based inputs. Cost increases are easily passed on, and the sector's robust fundamentals are reflected in resilient share prices compared to the broader market.
- **Shipping:** While global trade costs and insurance premiums are rising due to rerouting and supply chain bottlenecks, shipping companies are successfully passing on these increased costs to customers.

Credit Quality Assessment H2FY26

Moderation in Credit Ratio in H2FY26

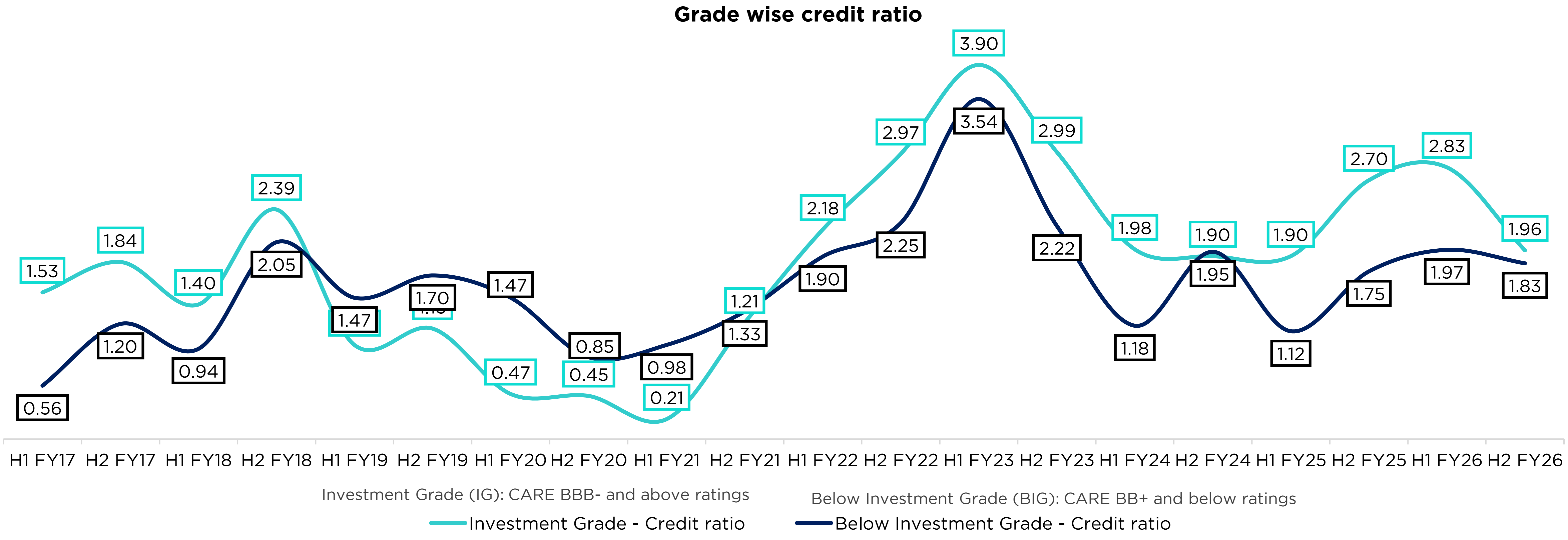


Source: CareEdge Ratings

Credit Ratio = Upgrades/Downgrades - A ratio higher than unity denotes more upgrades than downgrades. An increase in ratio as compared to previous periods denotes an improvement in the credit quality of rated entities and vice versa.

Credit ratio moderated to 1.93 times in the second half of fiscal 2026 from 2.56 times in the first half. Overall, there were 363 upgrades and 188 downgrades in CareEdge Ratings' portfolio in the second half.

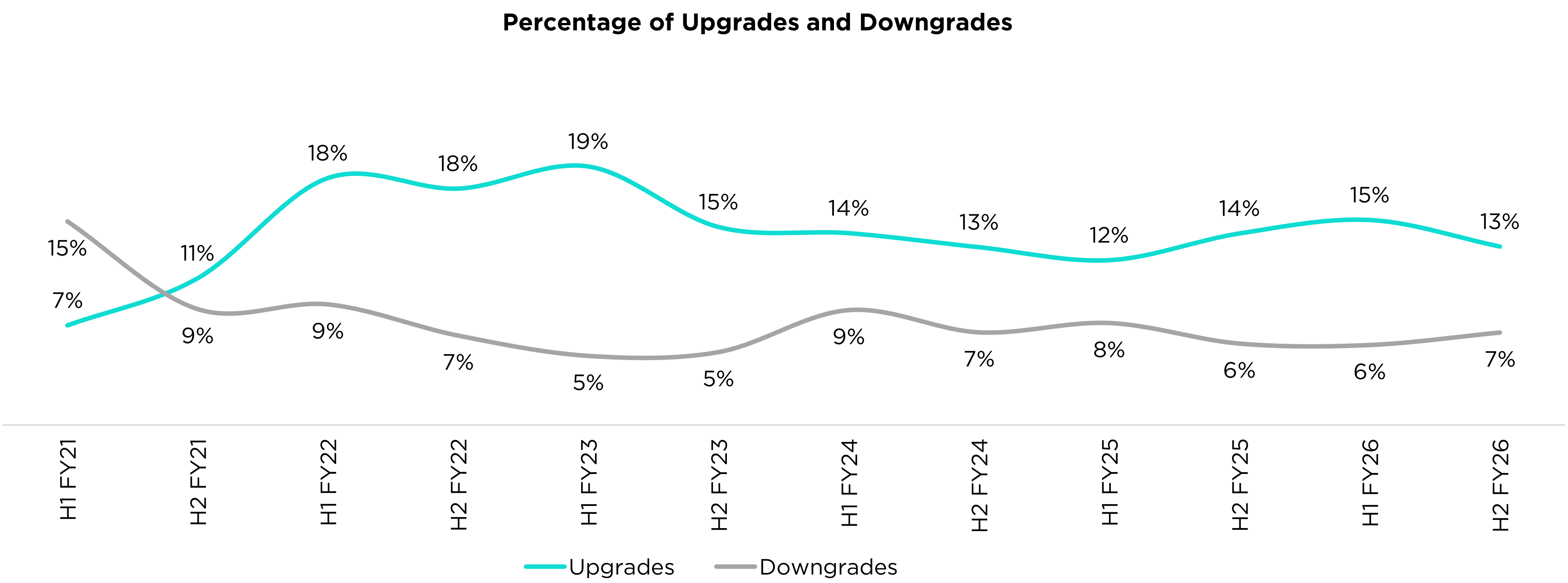
Credit Ratio: Moderation in Investment grade



Source: CareEdge Ratings

The Investment Grade (IG) portfolio witnessed a moderation in credit ratio in H2FY26, declining from 2.83 in H1FY26 to 1.96 in H2FY26, The Below Investment Grade (BIG) portfolio remained largely stable in H2FY26, with the credit ratio easing marginally from 1.97 in H1FY26 to 1.83 in H2FY26.

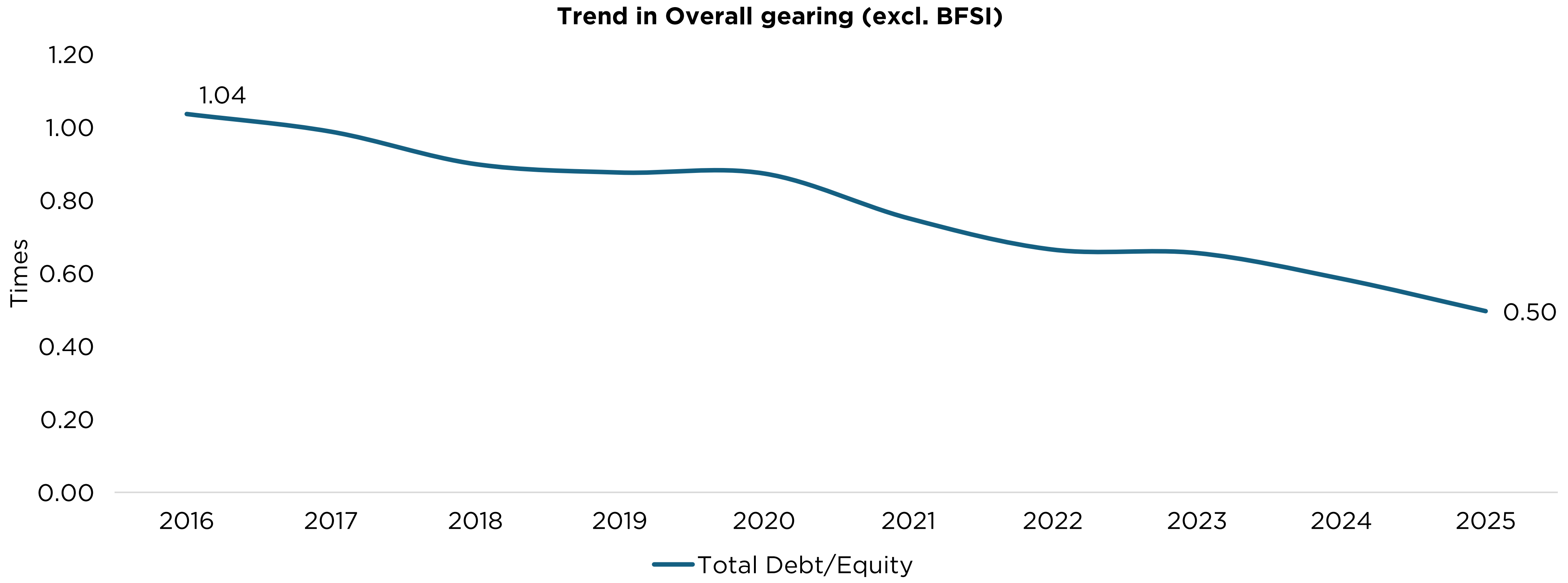
Upgrade Momentum moderated, Downgrades contained



Source: CareEdge Ratings

In H2FY26, the pace of upgrades moderated from earlier peaks while the downgrade rate remained contained.

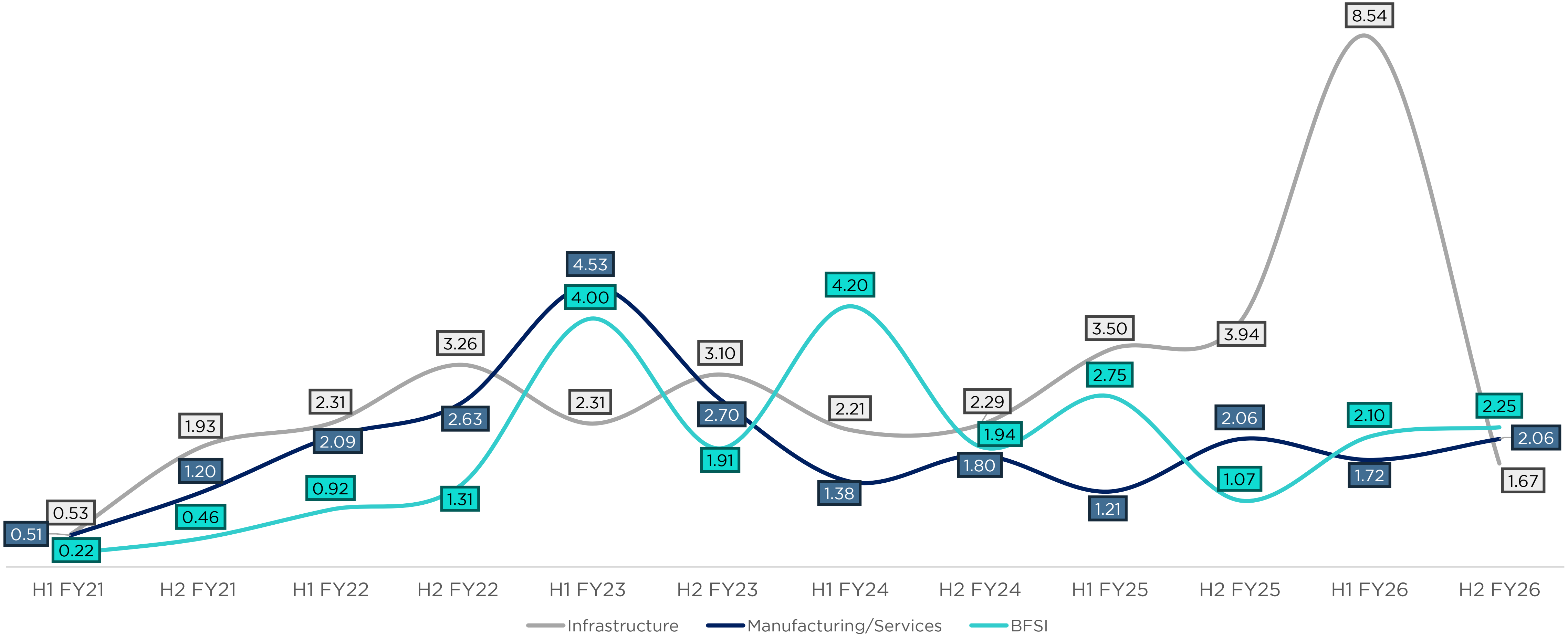
Healthy performance metrics with leaner balance sheets



Note: This is based on an aggregated analysis of around 8000 entities (excluding BFSI) over the past decade, with financials sourced from the Ace Equity platform.

Sectoral Credit Ratio Trend

Improvement in Manufacturing and BFSI Amid Infra Normalization

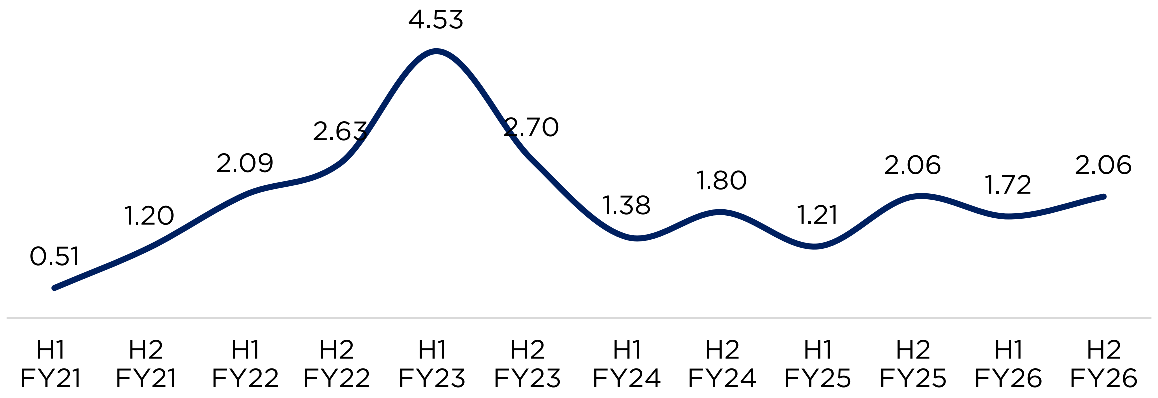


Source: CareEdge Ratings

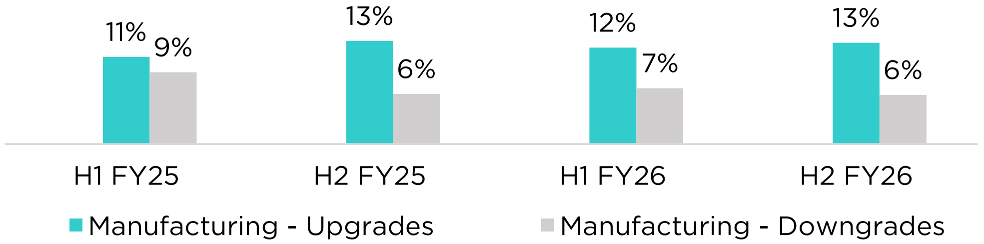
Manufacturing / Services

Manufacturing/services: Credit ratio remains healthy and range-bound

Manufacturing/Services credit ratio



Rating actions in last 4 half years



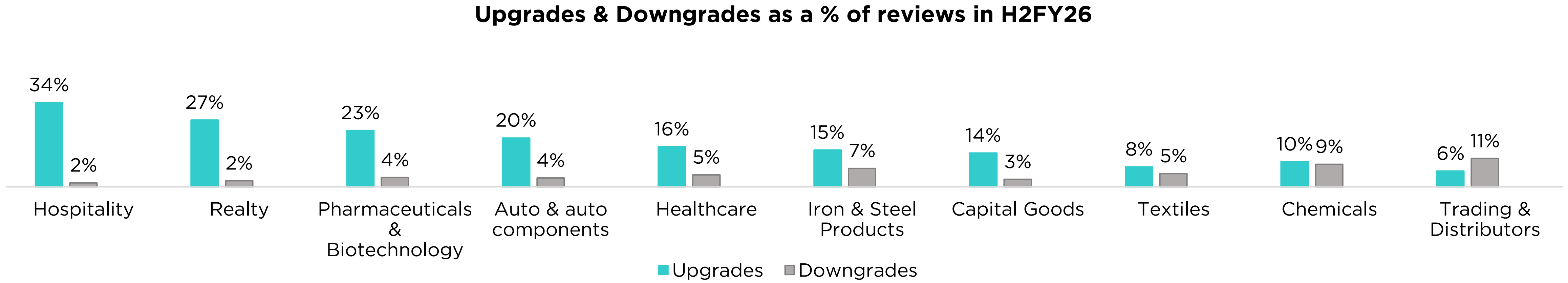
Source: CareEdge Ratings

Outlook: Stable

Key Drivers of Credit Ratio in H2FY26

- Credit ratio of the manufacturing/services sector during H2FY26 continued to remain healthy, primarily driven by upgrades in domestic focussed mid and small-sized companies. The large corporate segment especially in the higher Investment Grade rating categories, too, continued to exhibit steady performance as in the past few half-years.
- Going forward, the upgrade momentum during H1FY27 could moderate slightly considering the geopolitical upheavals the Indian Corporate sector has been witnessing in past few months – ranging from the US tariff to the ongoing West Asia conflict which is expected to have wide-ranging implications across the economy.
- However, Corporate India’s deleveraged balance sheets, in general, can provide some cushion in weathering the challenging external environment in the near term. Some of the companies in the impacted sectors could also benefit from their strong parentage. Also, Rupee depreciation can provide some balm to the exporters. If the war clouds recede soon, the manufacturing sector can also benefit from the various bilateral trade deals struck recently.

Manufacturing/services: Key sectors driving upgrades and downgrades



Source: CareEdge Ratings

Upgrades:

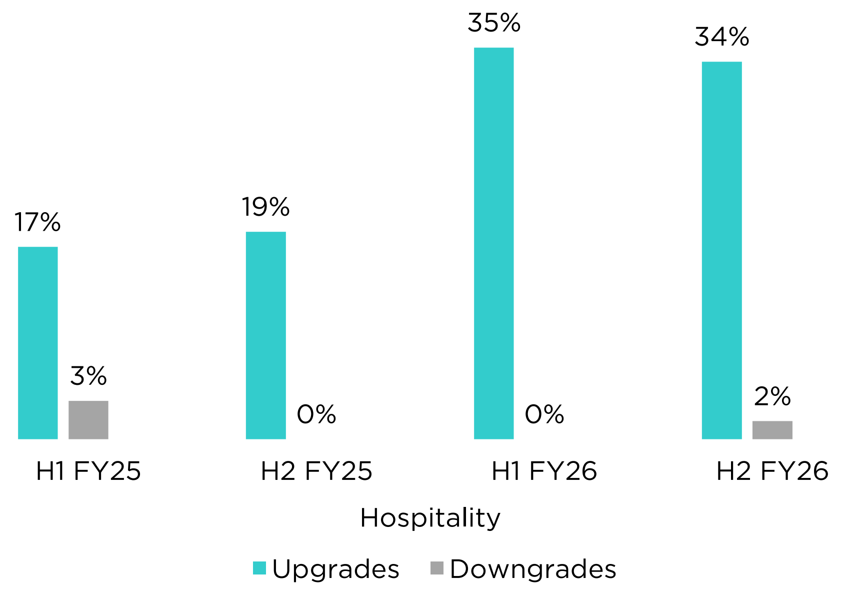
- While upgrades in the manufacturing sector were pretty broad-based during H2FY26, some of the key sectors driving them were pharmaceuticals, auto-ancillaries and real estate leasing, apart from mid-sized entities in the capital goods and agricultural food products segment. Upgrade momentum also continued in key service sectors - hospitality and healthcare.

Downgrades:

- Sectors which witnessed more downgrades were small-sized commodity trading and distribution entities, seafood and paper & paper products companies. This apart, the chemicals sector, especially entities in basic/petrochemical space also contributed to rating downgrades, primarily due to pricing pressure arising from intense Chinese competition.

Hospitality: Stable Outlook Amid Gradual Capacity Additions

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Strong occupancies backed by leisure, MICE, weddings, and business travel
- Demand outpacing supply sustaining pricing power
- Leaner cost structures and high occupancies keeping margins above pre-COVID.
- Room additions largely via asset-light models, supporting growth, smoother cyclicality, and deleveraging.

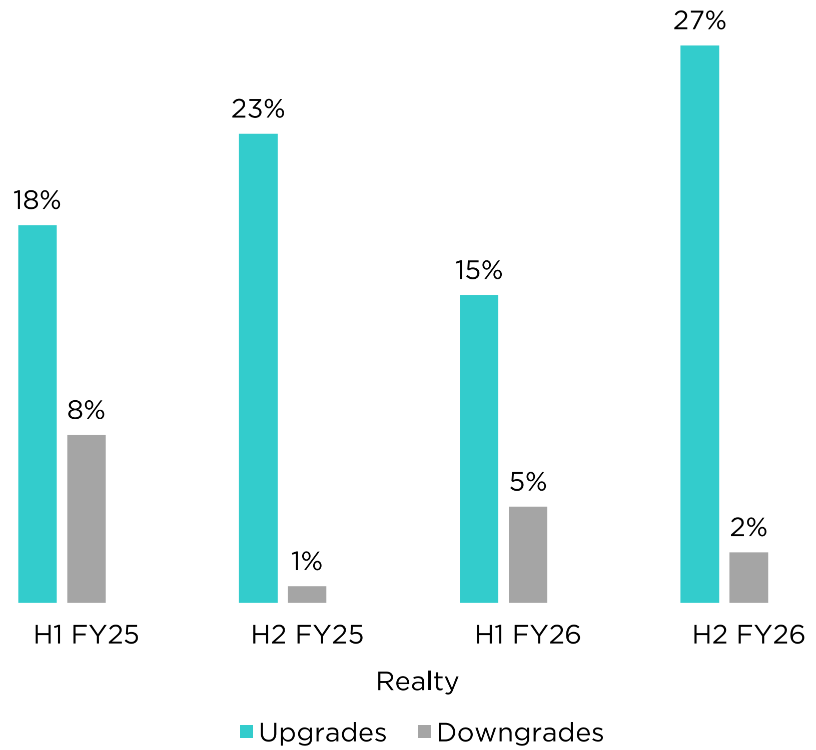
Outlook:

- Hospitality buoyed by domestic tourism, govt. push, and better connectivity; FTA recovery gradual, GST cut to aid demand.
- Premium hotel occupancy expected at 67–70% in FY27; ARR growth 5–7% YoY; revenue growth to ease to 6–7% in FY27 on high base after double-digit growth in earlier years.
- Supply growth (5-6% CAGR) to trail demand, ensuring favorable operating metrics.
- Persistent geopolitical tensions and elevated inflation, if sustained, could weigh on discretionary consumer spending and may moderate travel demand. This remains monitorable.

MICE: Meetings, Incentives, Conferences, and Exhibitions; ARR: Average Room Rate

Realty: Both, residential and leasing segment hold steady

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Strong residential sales, better collections, timely completion of projects and reduced indebtedness.
- Improved occupancy levels (leasing portfolio), steady growth in rent rates (in office and warehouse segment) and steady improvement in rental collections (retail sector)
- Improvement in promoter's/sponsor's credit profile.

Downgrades driven by:

- Increased exposure to high-cost debt-funded real estate projects and sluggish sales leading to moderation in receivable coverage ratio.

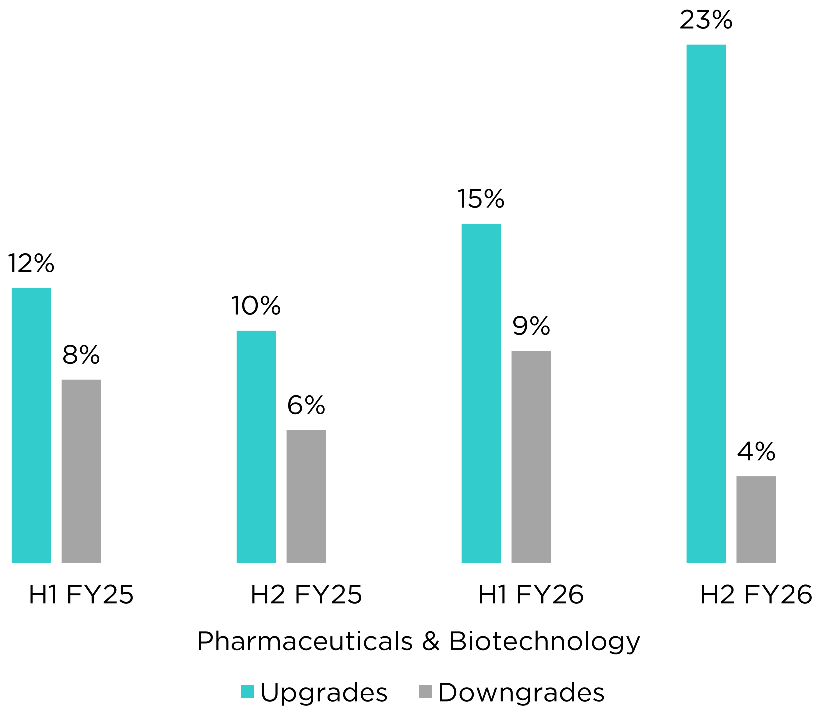
Outlook:

- Residential demand to remain stable in CY26, with sales volumes largely flat amid a high base; however, premium offerings to support steady growth in value terms. Developers to adopt a calibrated launch strategy; accordingly, inventory overhang to remain stable under ~18-20 months.
- Office leasing to remain robust, led by GCCs and flex space operators; however, influence of AI on future job creation remains to be seen.
- Retail mall consumption to remain steady, supported by GST reforms albeit inflation pressure arising from global conflicts remains a risk.
- Grade A warehousing demand to remain strong; Vacancy levels likely to remain below 8% by CY26.
- Impact of ongoing geopolitical tensions remains monitorable, given potential spillover effects on macroeconomic stability, capital flows and investor sentiment.

GCCs: Global Capability Centres

Pharma: Steady Demand to Sustain Growth; Credit Metrics to Remain Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Strong operating performance led by complex generics, specialty formulations, and high-margin products leading to improved profitability and debt coverage.
- Better revenue visibility from long-term supply agreements through contract manufacturing, and global pharma partnerships

Downgrades driven by:

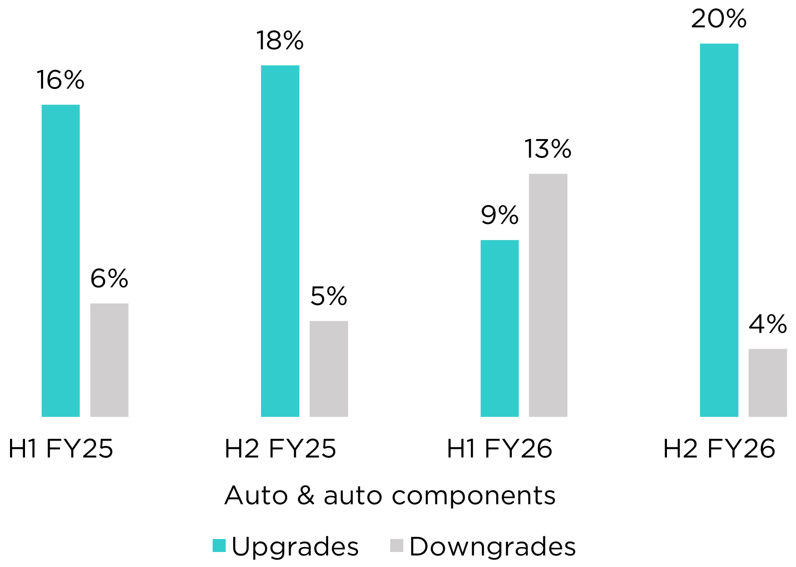
- Unplanned, large debt funded capex weakening than envisaged capital structure and debt coverage indicators.

Outlook:

- Industry growth of ~9% CAGR in medium term, driven by steady domestic and export demand with easing pricing pressure in regulated markets.
- Stable credit metrics aided by healthy profitability and low reliance on external debt. Operating margins are projected to remain healthy at ~23-24%.
- Limited impact from West Asia tensions, given the essential nature and the region accounting for only around 5–6% of India's pharma exports.

Auto & Auto Components: Resilient Domestic Demand while Global Disruption continues

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Improving domestic demand and operating leverage, aided by GST-led affordability and stable input costs.
- Product diversification and premiumization continues with low reliance on term debt and improved debt coverage indicators.

Downgrades driven by:

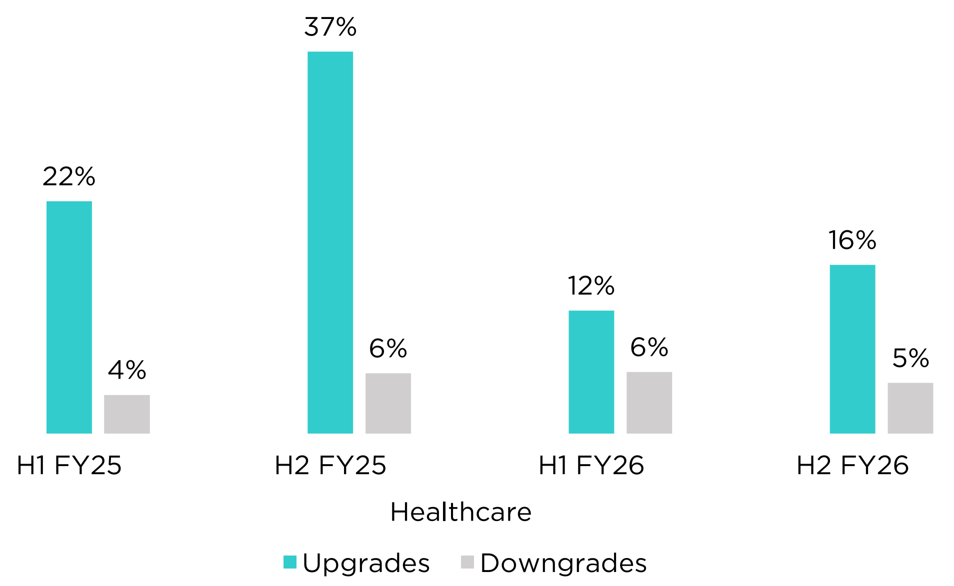
- Working capital stretch at dealerships due to push by OEMs.
- Demand softness in select auto ancillary segment and export markets (Europe and US).

Outlook:

- Domestic demand to remain healthy, supported by GST-led affordability improvements, stable rural sentiment after a normal monsoon, and sustained PV/2W momentum.
- Export outlook mixed: Removal of the extra reciprocal tariff by US has eased the pressure on India, but geopolitical tensions are keeping freight costs, transit timelines, and input prices volatile.

Healthcare: Robust sector fundamentals

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Positive

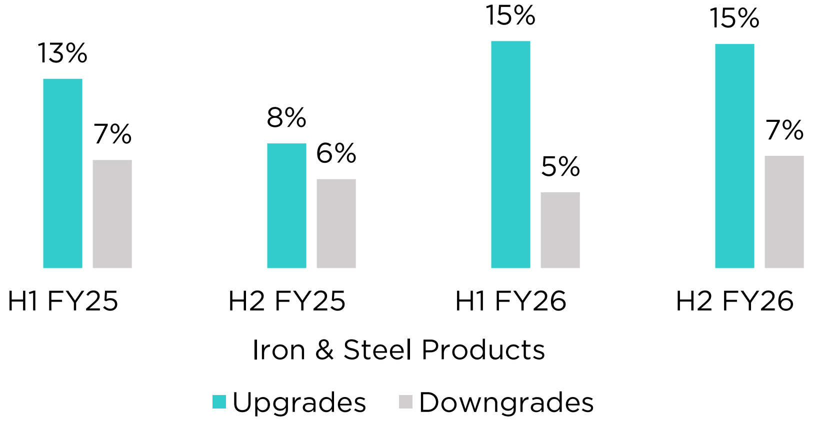
Upgrades driven by:
- Higher revenues due to bed additions and rising inpatient volumes
- Improvement in Average Revenue per Occupied Bed (ARPOB)

Downgrades - Reasons:
- Hospitals with high geographic concentration faced competitive pressure impacting occupancies and margins.

Outlook:
- Revenue growth of 11–12% expected, driven by low bed density, rising lifestyle and chronic diseases, ageing demographics, increasing insurance penetration, and growing medical tourism.
- Operating margins to stay steady despite sizeable capex planned and investments in new technologies. Factors such as operating leverage playing out, rising share of insurance and international business, help maintain margins despite additional overhead costs associated with adding beds in new facilities.
- While debt funded capex could lead to a marginal increase of 0.2-0.3x of net debt/PBDIT, leverage is expected to remain well within comfortable levels, supported by resilient cashflows.
- The sector supported by the long-term growth story, would continue to witness consolidation.

Iron & Steel: Resilient Domestic Demand Amid Global Headwinds

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Strong domestic demand driving higher capacity utilization.
- Continued emphasis by government on infrastructure spending and consistent demand from key end-user industries such as real estate, automobiles and capital goods.
- Commissioning of the incremental capacity additions by few players.

Downgrades driven by:

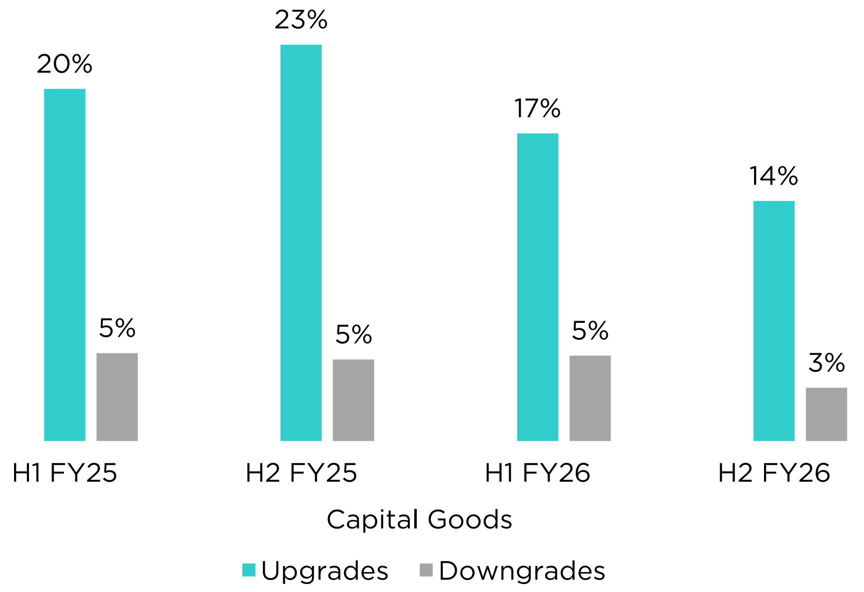
- Pricing pressure from falling international steel prices affecting realizations and coverage indicators of secondary/non-integrated steel players

Outlook:

- Domestic steel demand to grow at a CAGR of ~7-8% during the next 2-3 years.
- Apart from the infrastructure sector, consumption-led sectors such as automotive, pipe manufacturing, capital goods and consumer durable sector also likely to support the demand.
- The three-year safeguard duty on certain flat products imposed by the government, converting the earlier 12% provisional duty (April 2025) into a long-term protection measure is supporting domestic realizations and profitability.

Capital Goods: Sustained growth benefiting from strong order pipeline

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Sustained demand from various industries leading to continuous inflow of orders and execution.
- Improved revenue and profitability driven by healthy order book.
- Expansion of product profile, moderate utilization of working capital limits, comfortable debt coverage indicators.

Downgrades driven by:

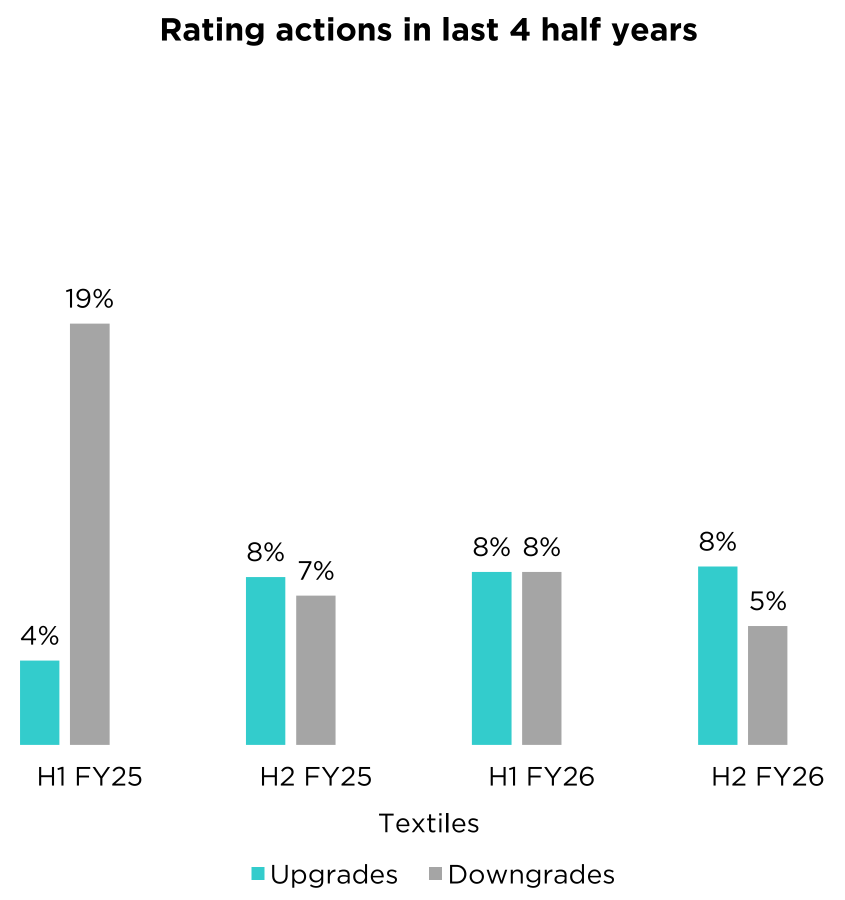
- Debt funded acquisitions, capex and incremental working capital needs leading to increased debt levels and deterioration in leverage position.
- Stretched liquidity position

Outlook:

- Sustained growth with strong order visibility and improving private capex, although execution risks and commodity volatility remain key monitorables.

Textiles: Exports to thrive as US Cuts tariffs

Outlook: Stable



Source: CareEdge Ratings

Upgrades driven by:

- Revenue growth post capex stabilization.
- Steady improvement in profitability supported by cost optimization initiatives and better product mix.
- Sustained improvement in debt coverage and capital structure, supported by economies of scale.

Downgrades driven by:

- Declining scale of operations due to weak export demand and limited capacity to absorb pricing pressure
- Deterioration in capital structure due to continued losses

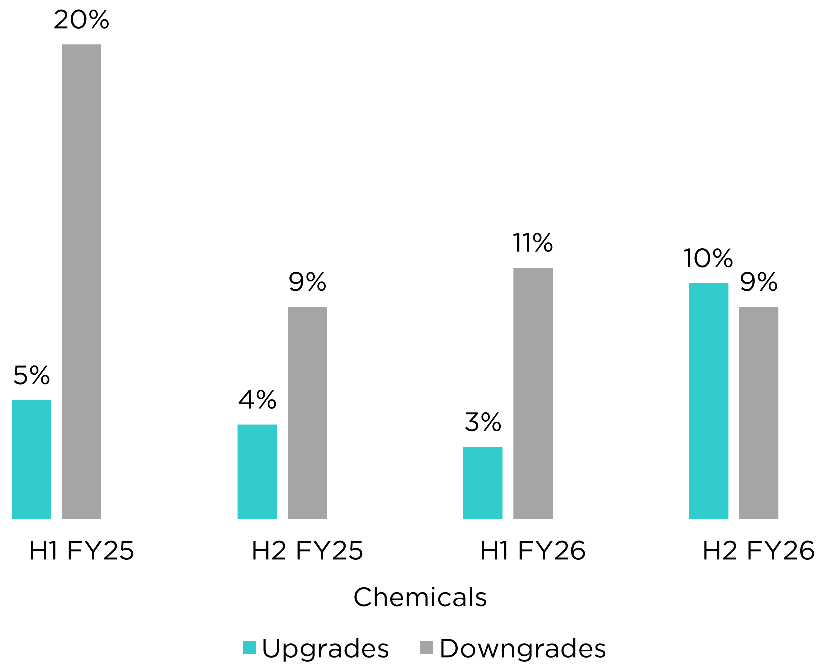
Outlook:

- Overall exports were stable at USD 38.3 bn in CY25, despite US exports falling to USD 10.49 bn from USD 10.93 bn. The US share declined to 27.4% from 28.7%. Stable overall performance reflects diversification to non-US markets.
- RMG exports registered 1.6% YoY growth. Exports to the US declined marginally due to tariff-led disruptions. The impact was offset by double-digit growth in exports to the UAE (FTA-driven), Saudi Arabia and Italy.
- US tariff reduction improved competitiveness, though partially offset by reduction in RoDTEP rates. FTAs with UK and EU expected to further support export growth momentum.

RMG: Ready Made Garments; FTA: Free Trade Agreement; RoDTEP: Remission of Duties and Taxes on Exported Products

Chemicals: Patchy recovery amid global uncertainties

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Domestic focused speciality chemicals (viz. laminating adhesives, food grade colours, menthol etc.) performing well on the back of good domestic demand
- Project commissioning and change in parentage also contributing to improved financial profile

Downgrades driven by:

- Surfactants, pigments, leather chemicals, coke and petrochemicals getting impacted due to weak demand, China dumping and US tariff.
- Project delays and incidents of fire contributed to weakening of financial profile.

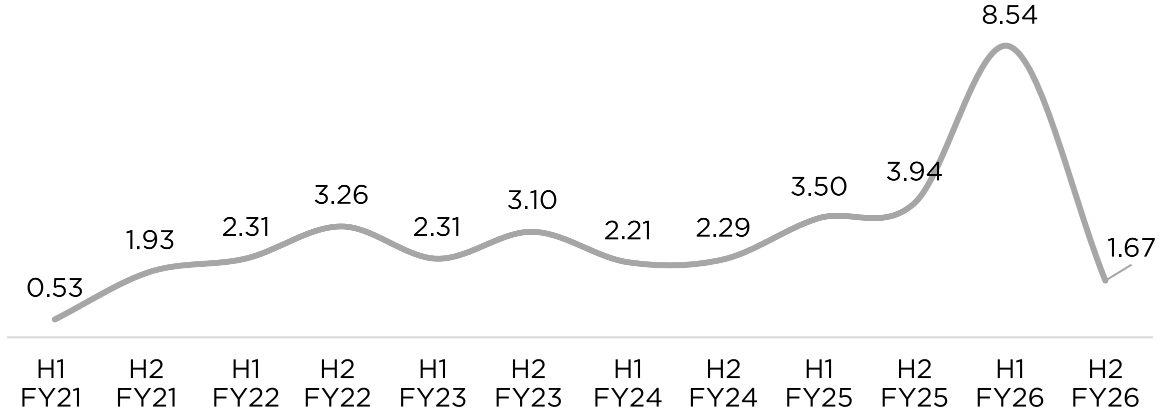
Outlook:

- Domestic demand remains steady, supported by FMCG, packaging, pharma and ethanol-blending sectors. Global demand stays subdued, with overcapacity, slower economic growth and Chinese dumping keeping margins under pressure.
- Easing of US Tariff is expected to improve competitiveness for Indian chemical exports aiding demand and margin stability.
- However, geopolitical disruptions elevate freight and supply-chain risk, adding volatility to both basic and speciality chemicals.

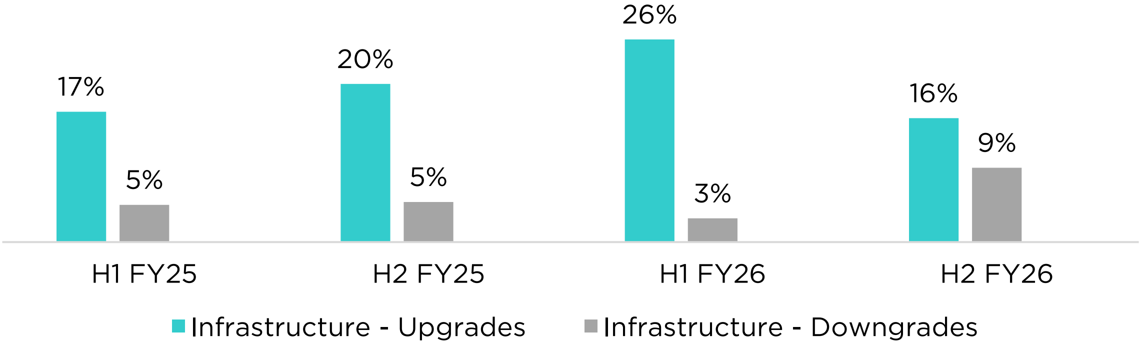
Infrastructure Sector

Infrastructure: Credit ratio normalizes from peak levels

Infrastructure credit ratio



% of rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Key identifiable drivers:

Upgrades

- Commissioning of projects, especially in the road Hybrid Annuity Model (HAM) segment & renewable power generation space.
- Timely payments from most of the state distribution utilities resulting in faster than expected de-leveraging for power producers & transmission infrastructure providers
- Multiple portfolio transactions involving change in ownership to strong sponsor or transfer to InvIT in bulk; enhancing financial flexibility of the assets.

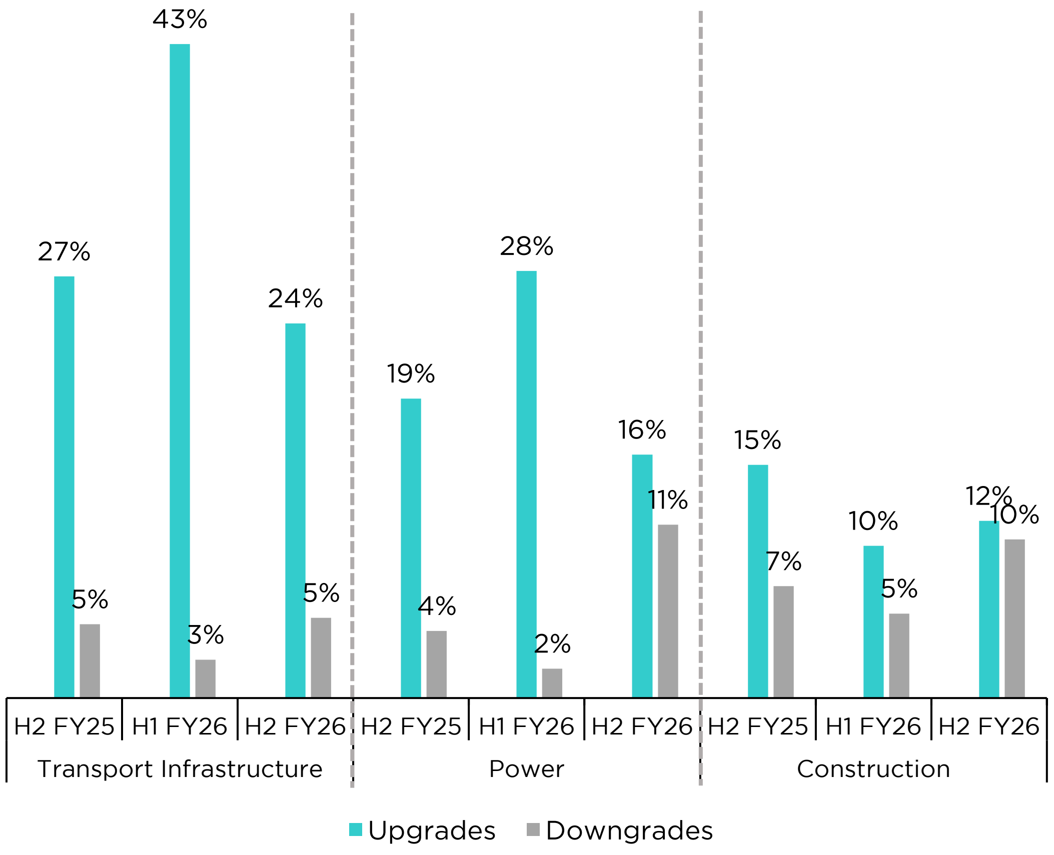
Downgrades

- Deterioration in capital structure marked by rising non-project debt at large renewable sponsor holdcos combined with lag in operational performance; also triggered actions on linked ratings
- Delays in receipt of requisite approvals, project execution, weak order books and discontinuation of monthly payments under Atmanirbhar Bharat have increased working capital pressures for some mid-sized EPC players, impacting their credit profile

Transport & Power: Project commissioning uplifts outlook amid modest bidding scenario & rising competition

Outlook: Stable

Rating actions in last 3 half years



Source: CareEdge Ratings

PLF: Plant Load Factor; AD: Appointed date

Outlook

Transport infrastructure:

- Revenue visibility enhanced with infrastructure push by the Government across segments – airports, seaports & urban infrastructure.
- Steady traffic performance boosts revenue profile while project awards trail behind

Power:

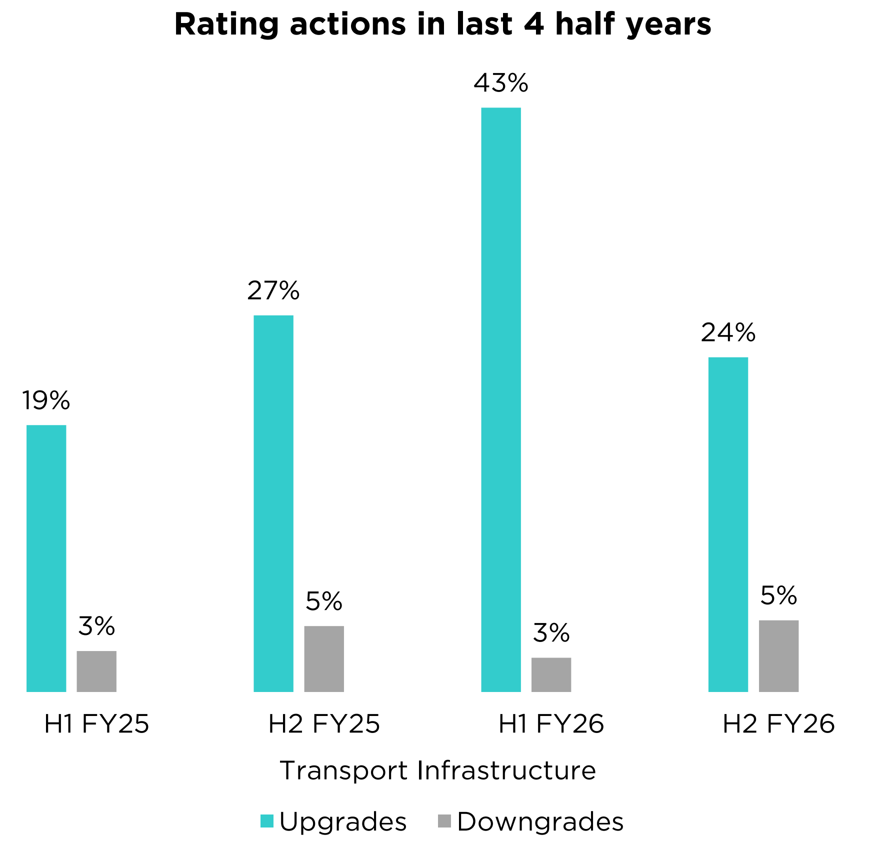
- Moderation in demand growth likely to keep thermal PLFs rangebound between 68-70%
- Merchant prices have moderated to < Rs. 4 per unit
- With spurt in renewables, prices to remain muted especially during renewable hours
- The share of storage-based investments are expected to rise over the medium term
- Evacuation infrastructure not commensurate with the incremental capacity being commissioned.

Construction:

- Diversified EPC players will benefit from increased focus on domestic transmission, urban infrastructure, roads but players with increased overseas focus under cautionary lens.
- However, slower order book additions in traditional sectors during H2FY26, delay in declaration of AD; tardy pace in fund release of Jal Jeevan projects and increased working capital intensity are putting pressure on the credit profiles of mid-sized EPC players

Transport Infra: Increase in proportion of operational portfolio to drive credit ratio albeit with execution woes

Outlook: Stable



Source: CareEdge Ratings

Upgrades driven by:

- NH- HAM projects achieving provisional commercial operations date (PCOD)
- Establishment of track record of annuities in NH-HAM projects and creation of requisite reserves
- Steady growth in toll collection

Downgrades driven by:

- Weakening in credit profile of sponsor for under construction projects
- Inordinate delay in project execution elevated by moderation in credit profile of sponsor

Outlook:

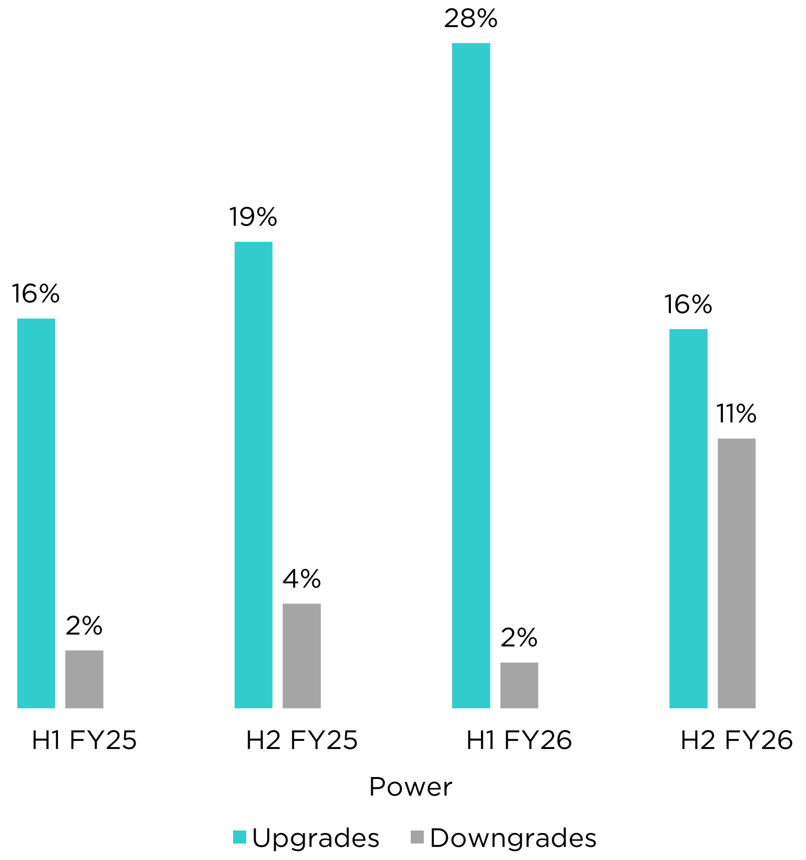
- NH HAM projects with BPC of ~Rs.50,000 crore are expected to be operational in FY26
- Change in ownership for operational toll roads to InvIT and increase in proportion of operational HAM shall continue to improve credit profile of debt
- Limited premium over NHAI cost and relatively higher leverage in future operational HAM projects shall moderate the valuation multiple
- Pace of construction for NHAI is expected to slow down further by 10% in FY26 due to increase in execution woes and intense competition. Pace of awarding continues to be subdued for last two consecutive years.

NH HAM: National Highways- Hybrid Annuity Model; BPC: Bid project cost

Power: Steady demand, investor interest prop up sector, long-term capital will be key

Outlook: Stable

Rating actions in last 4 half years



Source: CareEdge Ratings

Upgrades - Drivers
Thermal

- Resolution of long-pending disputes with offtakers, particularly state distribution companies, leading to improved cash flows and stronger liquidity.
- Commissioning of major capacities that were previously under development
- Adequate coal availability along with steady power demand, resulting in higher PLFs.
- Favourable resolution of key regulatory issues and tie-up of power through medium-term PPAs.

Renewables

- Commissioning of assets that were previously under construction.
- Longer operational track record with stabilization of operations and improved PLFs.
- Industry consolidation resulting in asset acquisitions by stronger promoter groups.
- Improvement in the parent's credit profile due to enhanced financial flexibility (through incremental equity infusion) or expansion in the operating capacity, leading to greater scale.

Downgrades - Drivers
Thermal & Renewables-

- Delay in equity infusion, resulting in capex being predominantly debt-funded, thereby adversely impacting the leverage and coverage metrics.
- Delay in commissioning of large-scale assets, leading to deferment of cash flows.
- The above two factors contributed towards downgrades in multiple linked ratings.
- Sub-optimal operational performance due to lower resource availability and elevated operating costs.

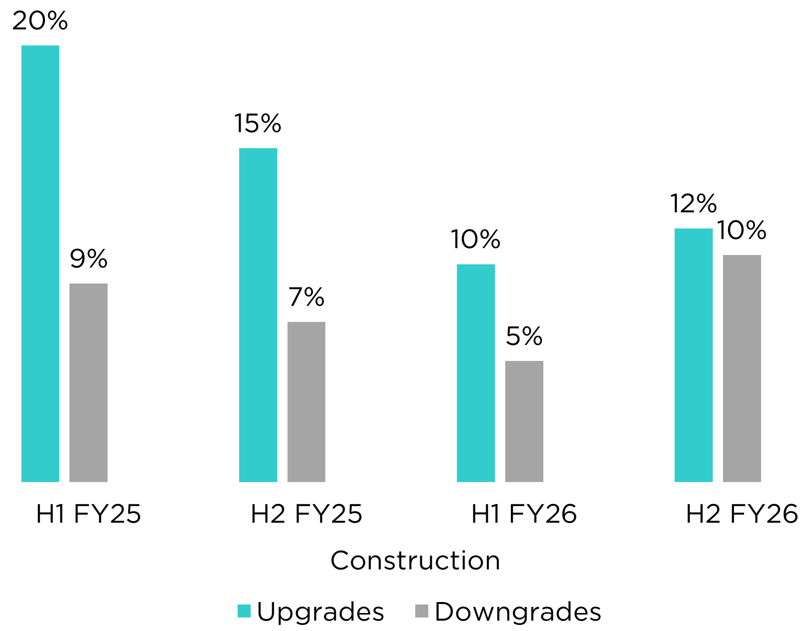
Outlook:

- Moderation in demand growth likely to keep thermal PLFs rangebound between 68-70%
- Merchant prices have moderated to sub Rs. 4 per unit across 96-time blocks, due to high renewable supply. With the extensive growth in renewables, prices to remain muted at sub Rs. 2.5 per unit especially during the solar hours.
- Weather induced shocks will continue to impact power offtake.
- Renewables tariffs to remain competitive aided by strong policy focus and buoyant investor interest.
- The share of storage-based investments are expected to rise over the medium term.
- Ability of groups to mobilize equity capital for growth and keep leverage in check would be critical

PPA: Power Purchase Agreement; PLF: Plant Load Factor;

Construction: Enhanced order book position to drive growth with continued monitoring of working capital intensity

Rating actions in last 4 half years



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Strengthening of order book
- Scaling up of operations while maintaining stable profitability and low leverage
- Reduced sponsor risk with completion of under-construction HAM projects

Downgrades driven by:

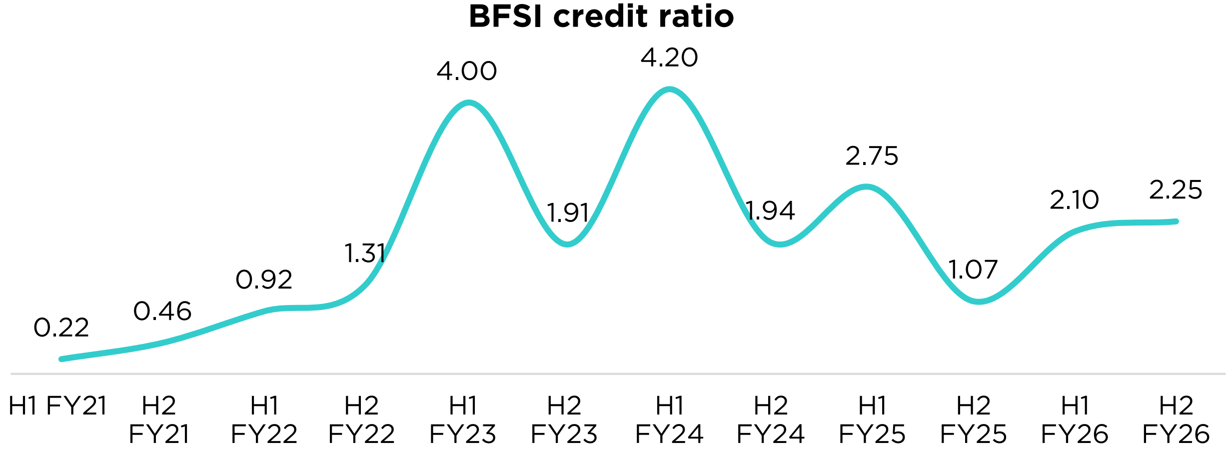
- Inordinate delays in project execution
- Significant increase in working capital intensity

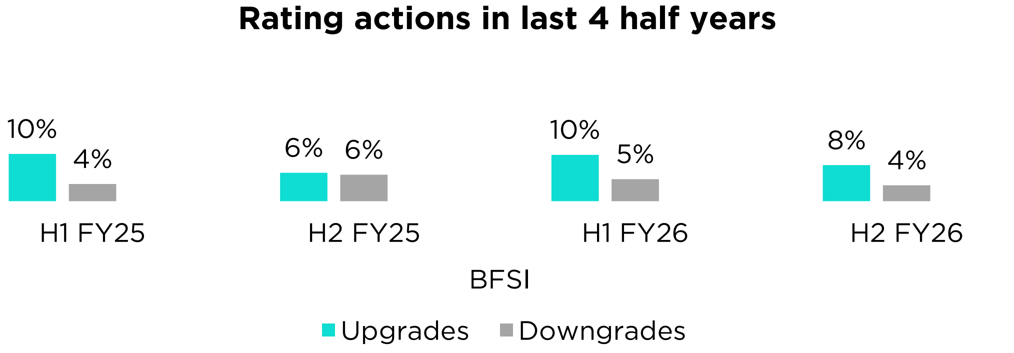
Outlook: Infrastructure led order book to continue

- Diversified EPC players to benefit from thrust on transmission, urban infrastructure and real estate. Order book strengthened by ~15% as on September 30, 2025
- National Infrastructure Pipeline stood robust at INR 185 trillion as of March 2025.
- Expected pick up in project execution post moderation in FY25
- Working capital intensity continues to remain key monitorable with increased execution & rise in State projects and delayed receivable from Jal Jeevan Nigam projects
- Decline in margins of road developers by 100-150 bps due to rise in bitumen prices
- Revenue of EPC players with exposure to mid-east to face revenue moderation in near term

Banking and Financial Services

BFSI credit ratio improves in H2FY26 with upgrades in NBFCs, downgrades in small NBFCs and MFIs





Source: CareEdge Ratings

Outlook: Stable

Key identifiable drivers:

- Upgrades were mainly in NBFCs driven by continued improvement in financial performance, improved credit profile of the parent, and healthy capital infusions leading to better leverage.
- Downgrades were largely across NBFCs in the microfinance segment and for smaller NBFCs in below investment grade.
- Ratings of banks remained stable during the period

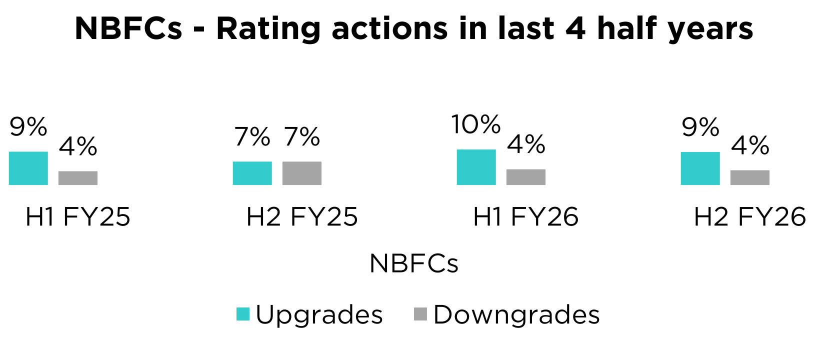
Outlook:

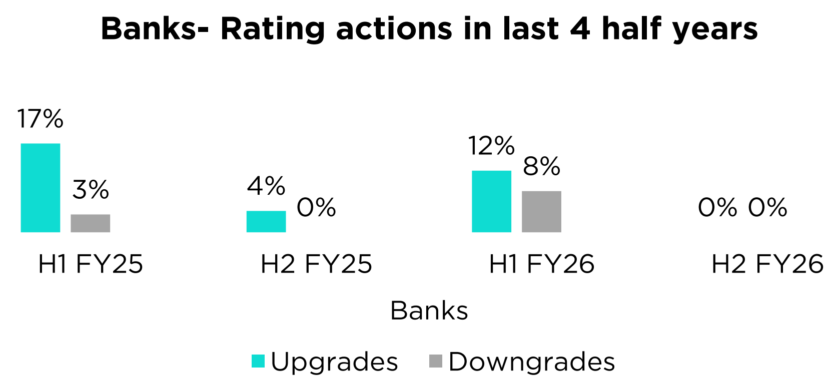
- Banking sector credit profile to remain stable given robust capitalization levels and stable asset quality
- Advances growth is expected to remain moderate in the current fiscal with moderate economic growth impacted by tariff issues, geopolitical tensions, competition in the wholesale segment and cautiousness in certain retail segments especially unsecured products
- NIMs of banks are expected to witness pressure over the next two quarters, with 25 bps rate cut effected in December 2025
- The credit outlook is expected to be stable for Banks
- Similarly, the outlook is expected to be stable for NBFCs in secured asset classes such as Mortgages, vehicles, etc.

NIM: Net Interest Margins

Comfortable capitalization levels to support the credit profiles

Outlook: Stable





Source: CareEdge Ratings

- Upgrades were mainly in entities which saw change in promoter due to acquisition or through demonstration of parent support through either capital infusion or re-alignment of group structure to provide more support to the NBFCs by the respective groups. Few of the upgrades were due to continued improvement in financial performance and increase in scale.
- Downgrades were largely in few small NBFCs in the microfinance segments and for NBFCs which saw increase in credit costs and were unable to raise equity capital as envisaged.
- NBFCs engaged in secured asset classes like home loans, Loan Against Property (LAP), vehicles etc. continue to witness healthy asset quality. With comfortable capitalization, the credit profile remains steady

- The ratings for Banks remained stable in H2FY26.
- Net NPA ratio for the banking sector is at its lowest ever level of 0.4% at the end of Q3FY26 down from 0.5% at the end of Q2FY26 due to continued improvement in asset quality and high provisioning coverage maintained by banks.

Credit Quality Outlook

Summing up and Way forward

Macro & External Environment

- High energy prices coupled with exchange rate uncertainty and geopolitical tensions have clouded growth and inflation outlook
- CAD, fiscal metrics and yields face pressure, though forex reserves provide a partial buffer

Overall Credit Quality Outlook

- Overall credit quality remains cautious, with credit ratio expected to be range bound
- Balance-sheet strength, project commissioning, and robust BFSI fundamentals continue to provide some relief in the near term.

Key Risks to Monitor

- Prolonged geopolitical tensions impacting:
    - Energy prices and inflation trajectory
    - Fiscal burden and G-sec yields
    - External sector metrics (CAD, rupee volatility)
- Sector-specific vulnerabilities in energy-intensive and trade-linked export segments

Thank you

Authors:

Sachin Gupta | Executive Director and Chief Rating Officer
Rajani Sinha | Chief Economist
Sanjay Agarwal | Senior Director
Rajashree Murkute | Senior Director
Ranjan Sharma | Senior Director
Vineet Jain | Senior Director
Yogesh Shah | Senior Director
Sabyasachi Majumdar | Senior Director
Priti Agarwal | Senior Director
Smita Rajpurkar | Senior Director
Shreya Khare | Assistant Director

Media Relations :
Mradul Mishra | mradul.mishra@careedge.in | +91 - 22 - 6754 3596

About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 | Tel. : +91-22-6754 3456
CIN: L67190MH1993PLC071691 | For queries / feedback write to us at: corp.comm@careedge.in

Connect