Corporate India: On a steady course amid challenges?

Credit quality assessment for H1FY24

Key highlights

- Global growth is projected to moderate to 3% in 2023 from an estimated 3.5% in 2022 according to the International Monetary Fund (IMF). Global growth outlook thus remains weak with 2023 GDP growth trailing well below the historical annual average of 3.8%.
- India's merchandise exports continue to feel the heat of global demand slowdown and trade deficit has shown signs of widening in the recent months.
- Amid the global challenges, India's economic growth accelerated to 7.8% in Q1 FY24 from 6.1% in the previous quarter and high-frequency economic indicators also depict resilience.
- CareEdge Ratings' credit ratio has moderated in this backdrop to 1.67 in H1FY24, down from 2.72 seen in H2FY23. Nevertheless, upgrades still continue to outnumber downgrades with 217 upgrades and 130 downgrades during H1 FY24..
- The credit ratio for the manufacturing and services sector during H1FY24 moderated to 1.38, down from 2.69 in H2FY23. This was mainly driven by significantly lower pace of upgrades while the number of downgrades remained at similar levels. The sectors that saw high upgrades in this period were auto/auto components, iron & steel, real estate, hospitality, healthcare and logistics services. While there were high number of downgrades seen in chemicals, textiles, Active Pharmaceutical Ingredients (APIs)/bulk drugs and agro-based sectors, with many of them being export-focused.
- In the infrastructure sector, the credit ratio continues to remain strong at 2.21 in H1FY24, though moderating from 3.10 in H2FY23. The transport infrastructure segment contributed significantly, followed by the power sector. The construction sector exhibited a mixed performance.
- The credit ratio for the BFSI (Banking, Financial Services, and Insurance) sector strengthened from 1.91 in H2FY23 to 4.20 in H1FY24. Non-Banking Financial Companies (NBFCs) expanded their operations, achieving improved profitability and bolstered capitalization through fresh equity mobilization. Banks also saw upgrades, riding on superior asset quality.
- Sub-normal monsoons however could be a possible dampener to the domestic demand potential.
- Going ahead, despite China's slow economic recovery, impact of past rate hikes, financial sector uncertainty, volatility in commodity prices, and geopolitical risks which pose headwinds for global growth; healthy domestic economic activity and comfortable current account position signal resilience in the domestic economy.

Economy

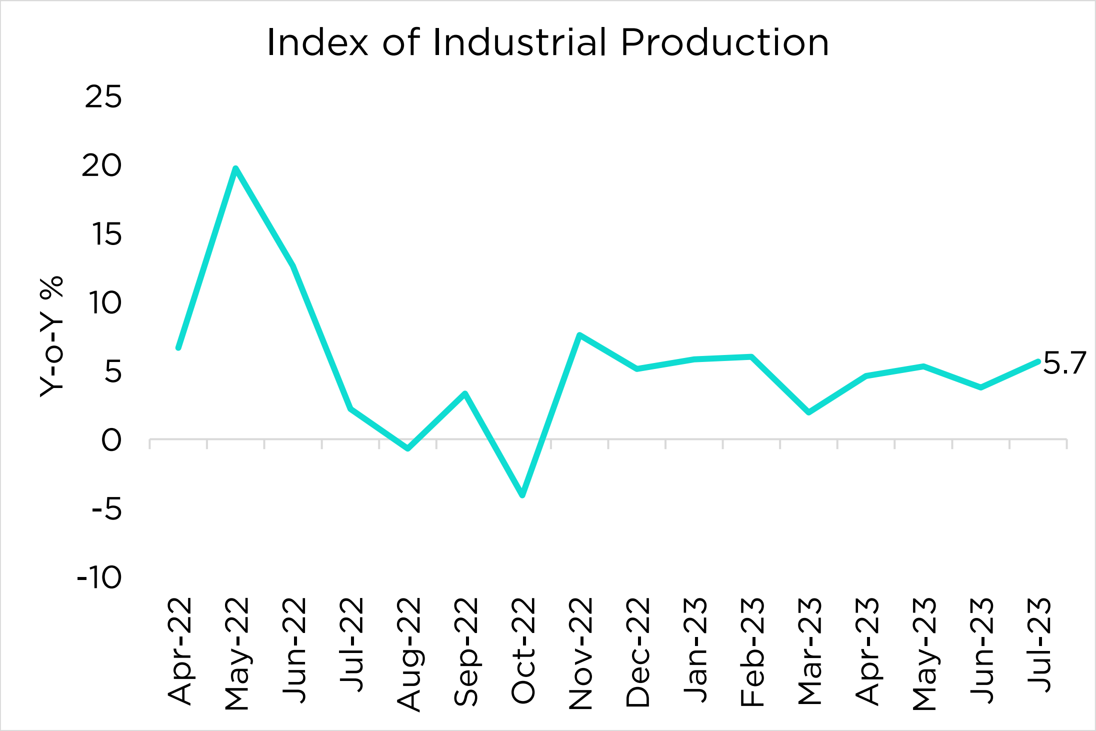
Global Economic Outlook Stays Clouded

- Global growth is projected to moderate to 3% in 2023 from an estimated 3.5% in 2022 according to the International Monetary Fund (IMF).
- Global Inflation is projected to moderate to 6.8% in 2023 from 8.7% in 2022., however, it is still elevated compared to the pre-pandemic (2017-19) level of 3.5%.
- Inflation though moderating continues to stay above the Central bank targets, warranting interest rates staying higher for longer.
- In the September policy meeting, US Fed opted to keep the policy rate unchanged but offered a hawkish guidance indicating one more rate hike in 2023 and fewer rate cuts in 2024.
- Global supply chains have normalized. However, weak domestic demand in China are keeping global commodity prices muted. Crude oil prices have also been volatile.
- Bank of England held interest rates unchanged for the first time since December 2021, keeping borrowing costs at their highest level since 2008.
- European Central Bank hiked rates by 25-basis points marking the tenth consecutive rate increase and taking the deposit rate to a record high of 4%.
- Going ahead, the cumulative impact of volatile crude oil prices, demand-supply mismatch in China, further rate hikes, and geopolitical risks remain the key monitorables.

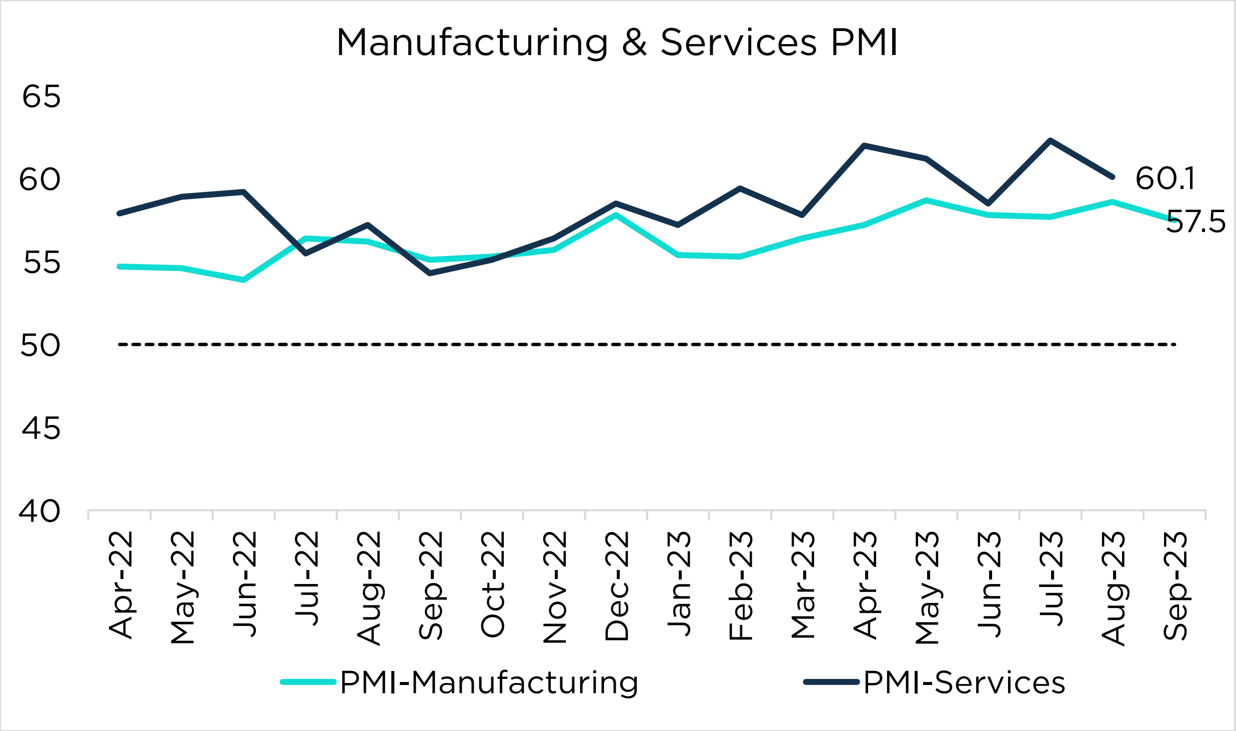
Domestic Economy Holding Up Well Despite Challenges

- India's GDP rose by 7.8% in Q1 FY24 from a growth of 6.1% last quarter, aided by a supportive base, healthy services growth and sustained momentum in manufacturing and construction sectors. CareEdge Ratings projects full year GDP growth to be at 6.5% in FY24 as against 7.2% in FY23.
- In the coming quarters, GDP growth is expected to moderate due to base normalization.
- We project full year GDP growth to be at 6.5% in FY24 as against 7.2% in FY23.
- CPI inflation high at 6.8% in August on account of elevated food prices; core inflation moderated to 4.9% Y-o-Y in August 2023.
- High-frequency economic indicators such as GST collections, E-way bills, PMIs and bank credit point towards healthy economic activity.
- On the external front, merchandise exports continue to feel the heat of global demand slowdown and trade deficit has shown signs of widening in the recent months.
- Overall, healthy domestic economic activity and comfortable current account deficit at 1.8% signal resilience in the domestic economy.
- However, resurfacing of inflationary pressures, especially food inflation, weather-related uncertainties and external spillovers remain the key watchouts.

IIP & PMI on steady ground



Source: CEIC



Source: CEIC

- Industrial production accelerated to a five-month high of 5.7% in July from 3.8% in the previous month.
- India's manufacturing and services activity continued to put up a strong show with PMIs continuing in the expansion zone (above 50).

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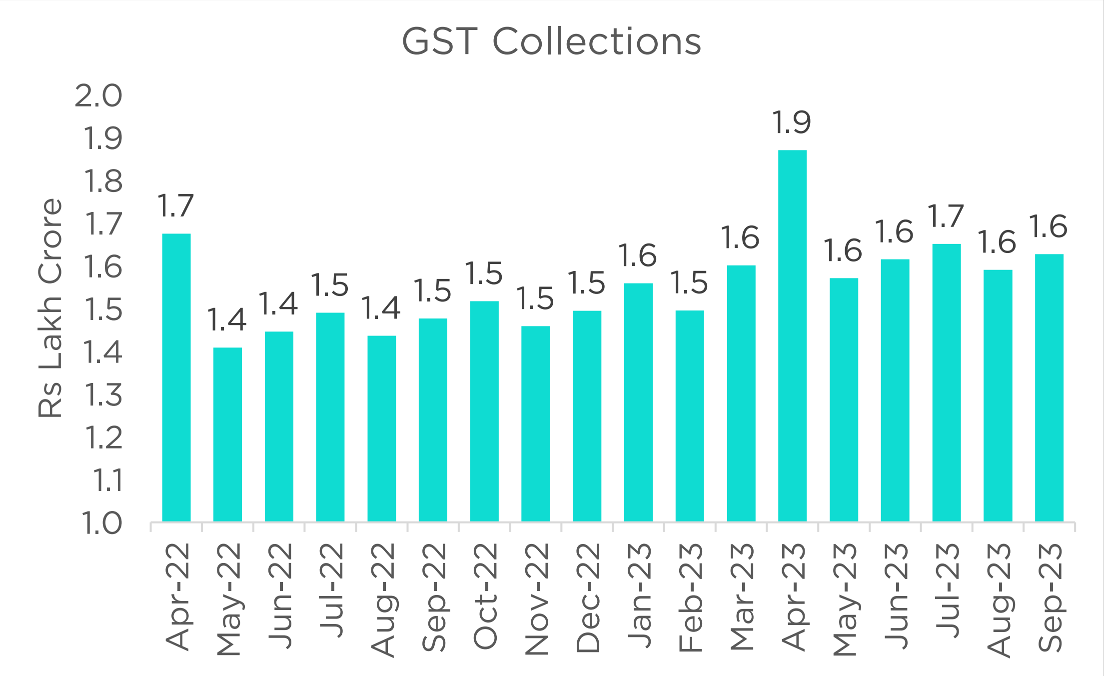
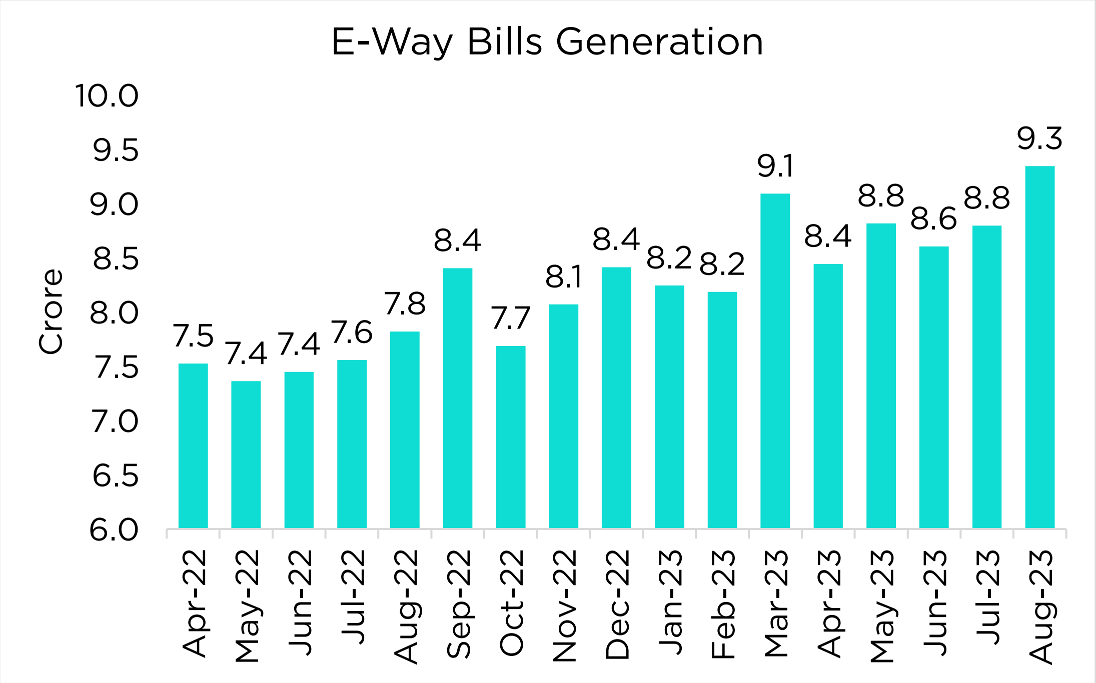
Robust GST collections & E-Way bills generation



Source: CEIC



Source: CEIC

- GST collections remained upbeat staying above Rs 1.6 lakh crore for the seventh consecutive month in September.
- E-way bills generation was at 9.3 crore in August, consistently breaching the 8-crore mark since November last year.

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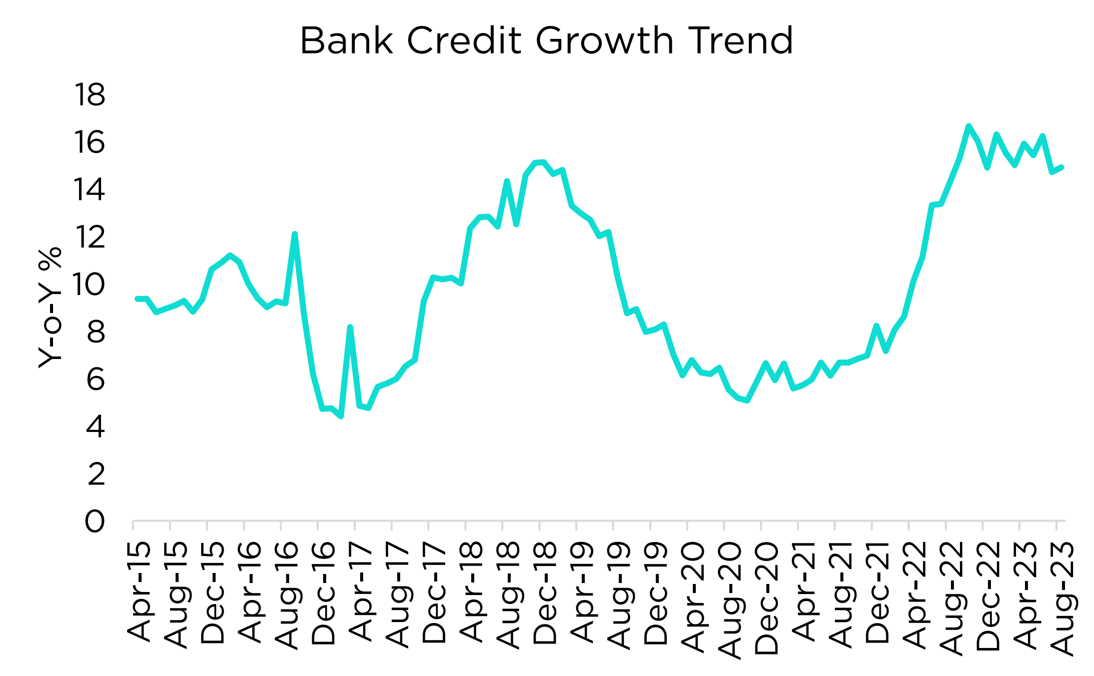
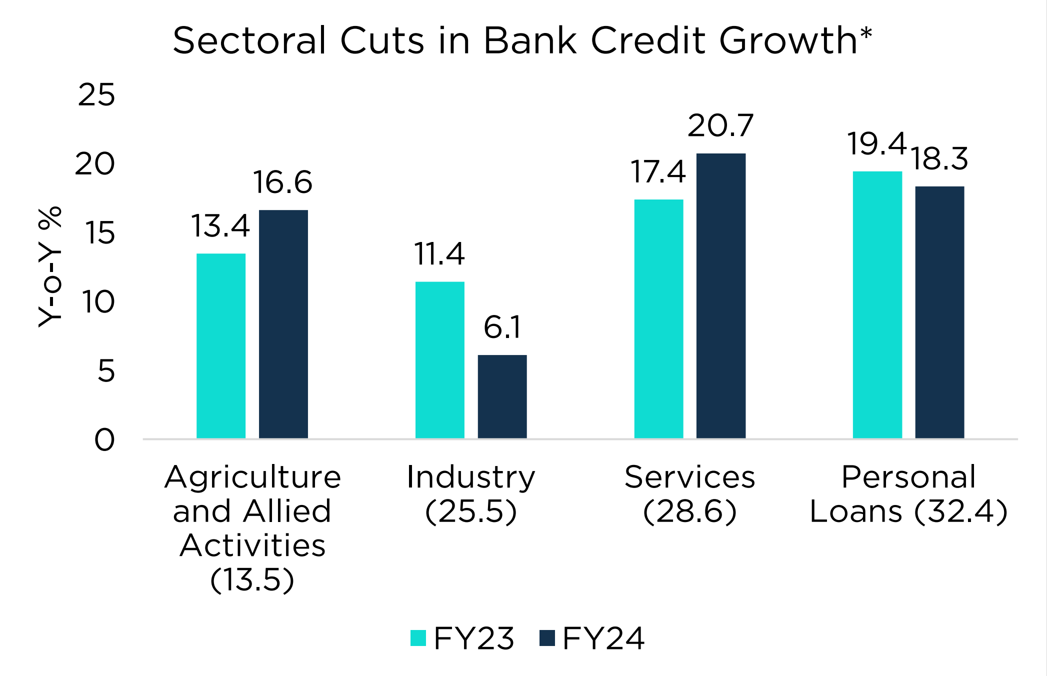
Services & Personal Loans Lead Credit Growth; Credit to Industries Muted



Source: CEIC; Growth rates for July & August FY24 exclude the impact of the merger of a non-bank with a bank.



Source: RBI; Note: Figures in bracket represent % share in total; Growth rates for FY24 exclude the impact of the merger of a non-bank with a bank. * Data up to August

- Bank credit growth led by the Services sector (mainly trade and NBFC sector) and the Personal Loans segment .
- Services credit growth was steered by healthy credit offtake in the trade and NBFC sector.
- Credit growth to Industrial sector still relatively muted.

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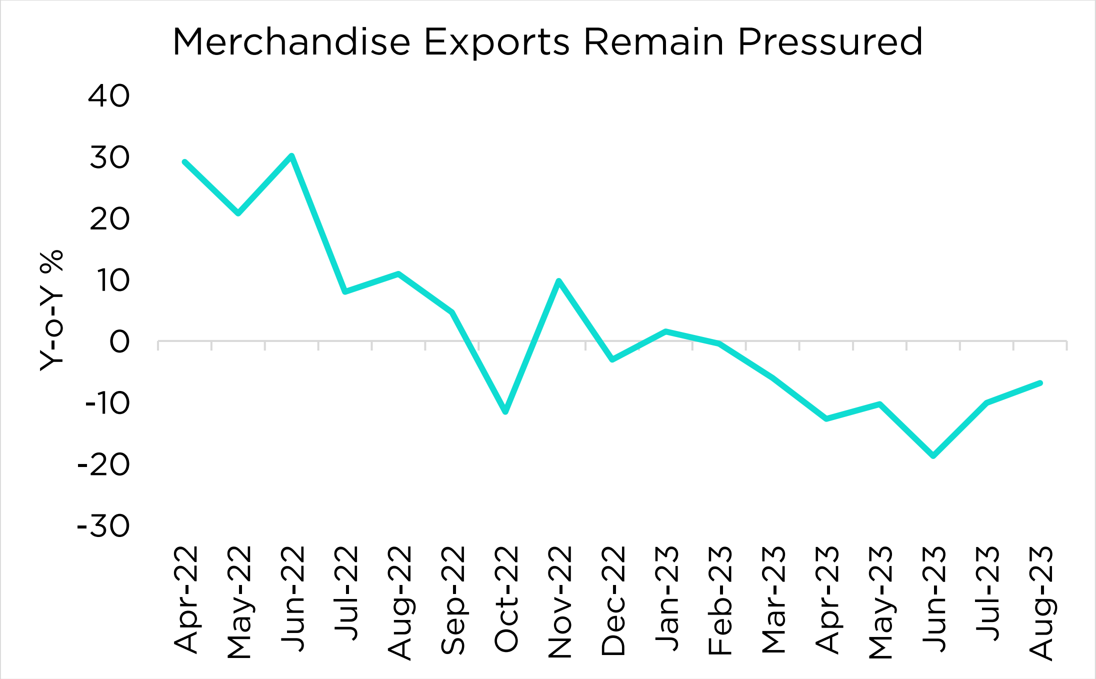
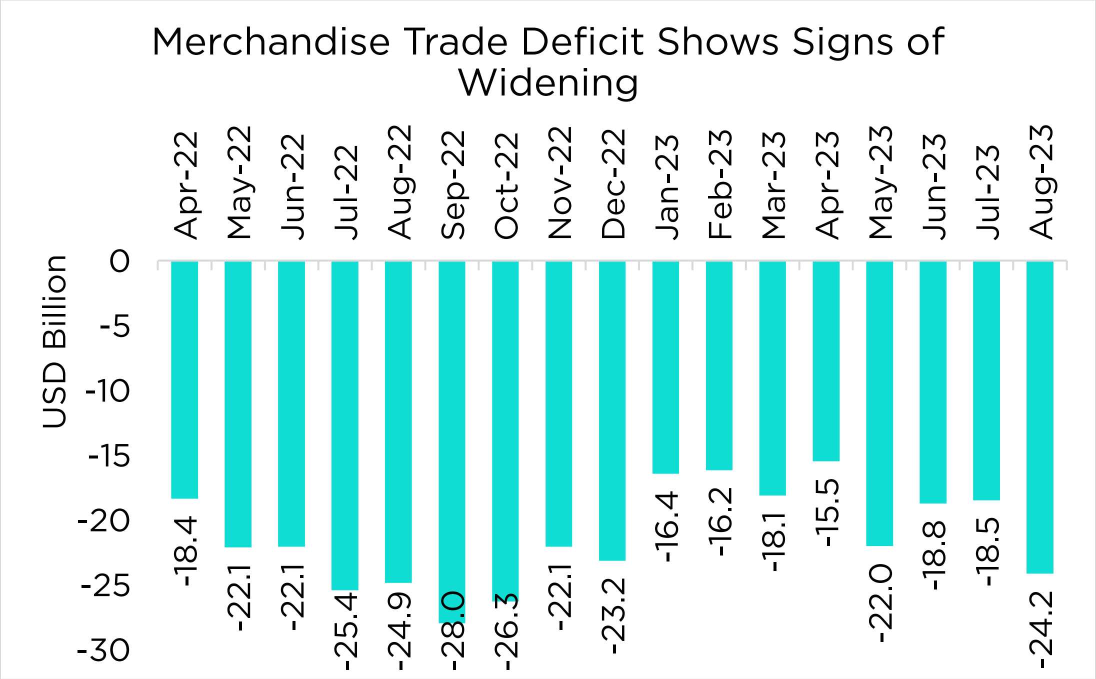
Exports coming under pressure



Source: CMIE



Source: CMIE

- Merchandise exports have been recording contraction since February this year owing to weak global demand conditions.
- Merchandise trade deficit widened to a ten-month high of USD 24 billion in August after averaging around USD 19 billion in the preceding four months.

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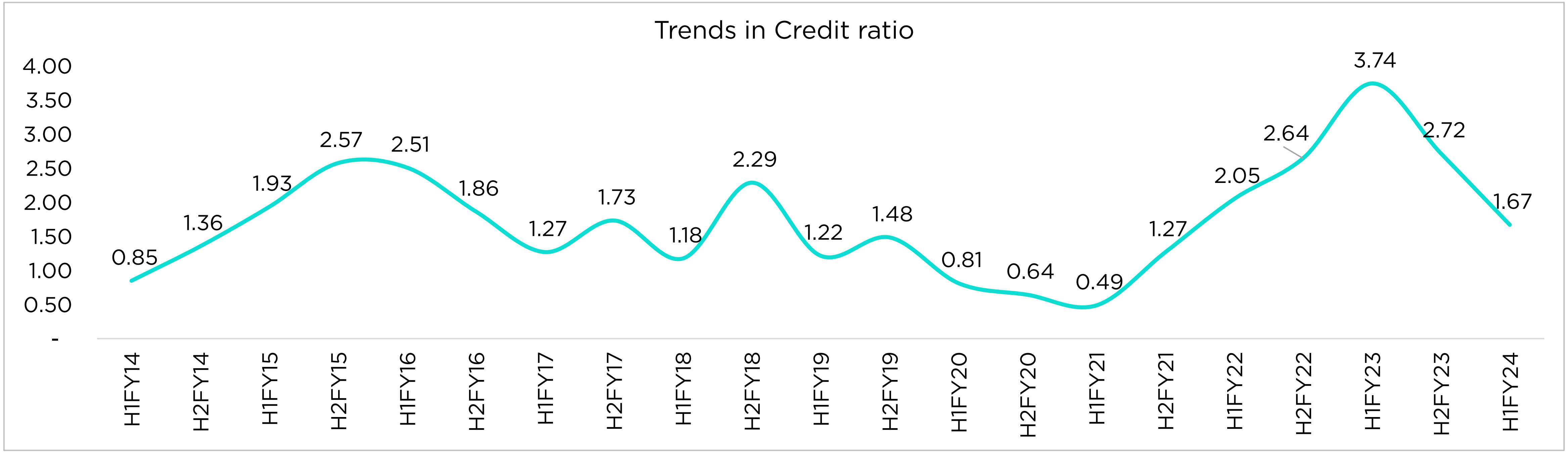
Ratings Portfolio

Credit Ratio: On a normalising trend



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 in the half year ended Sep 23, was at 1.67, which continued on its normalizing trend from 2.72 in H2FY23 and 3.74 in H1FY23, with 217 upgrades and 130 downgrades in H1FY24.

- The long-term average credit ratio for last 10 years is around 1.5 and hence we can say that the credit ratio is normalising

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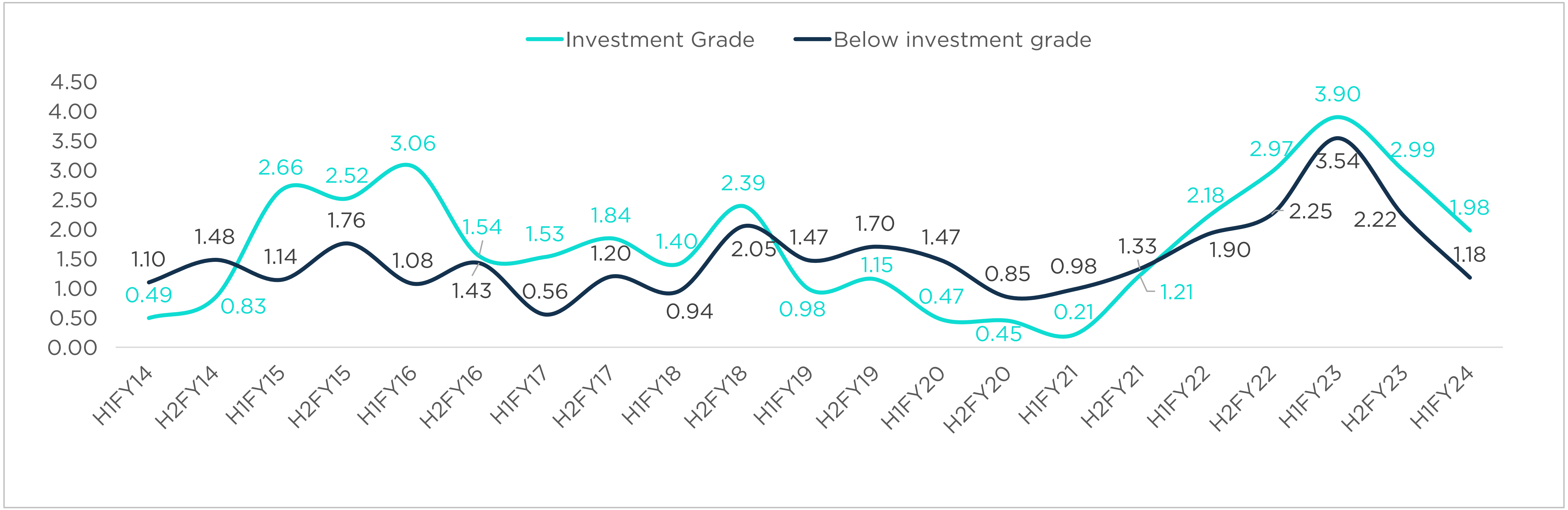
Sub-investment grade entities pulling down the ratio



Source: CareEdge Ratings Investment Grade: CARE BBB- and above ratings Below Investment Grade: CARE BB+ and below ratings

- The credit ratio for both Investment grade (IG) and Below Investment grade (BIG) entities declined as compared to the previous half year.
- The credit ratio of the BIG portfolio, plunged down from 2.22 in H2FY23 to 1.18 in H1FY24, pulling down the overall credit ratio.
- The credit ratio for the Investment Grade entities also saw a moderation from 2.99 in H2FY23 to 1.98 in H1FY24; it however remained strong, indicating that the investment-grade portfolio has exhibited higher resilience.

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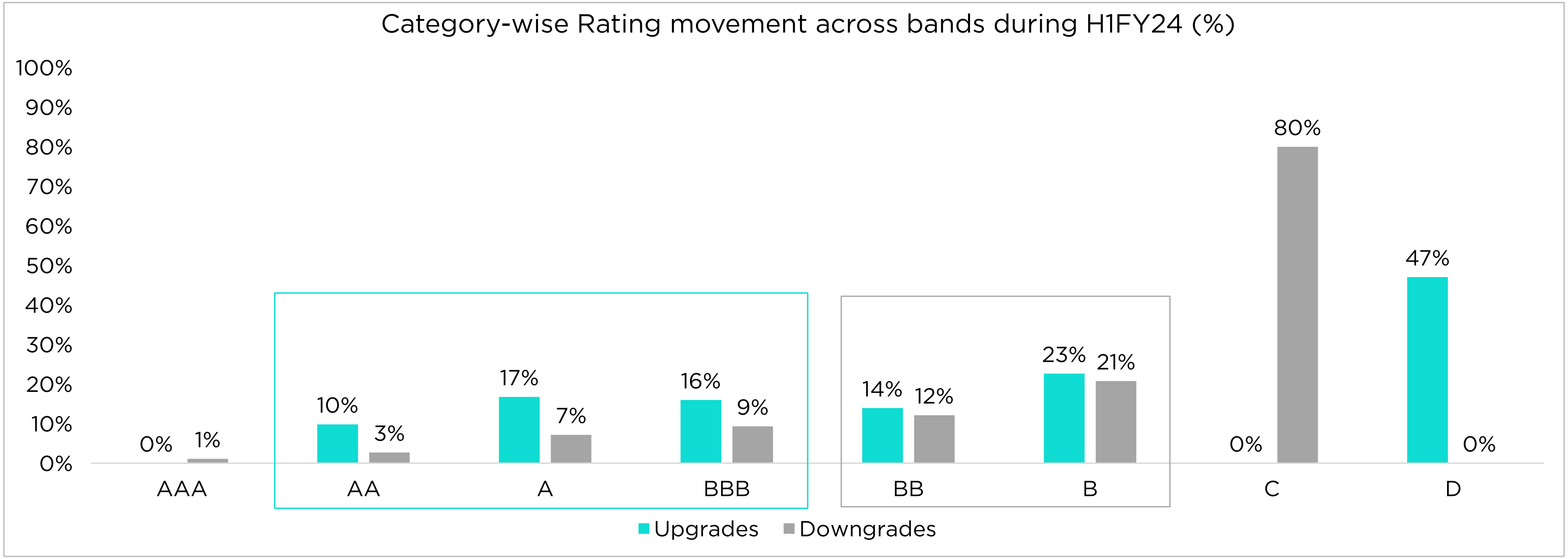
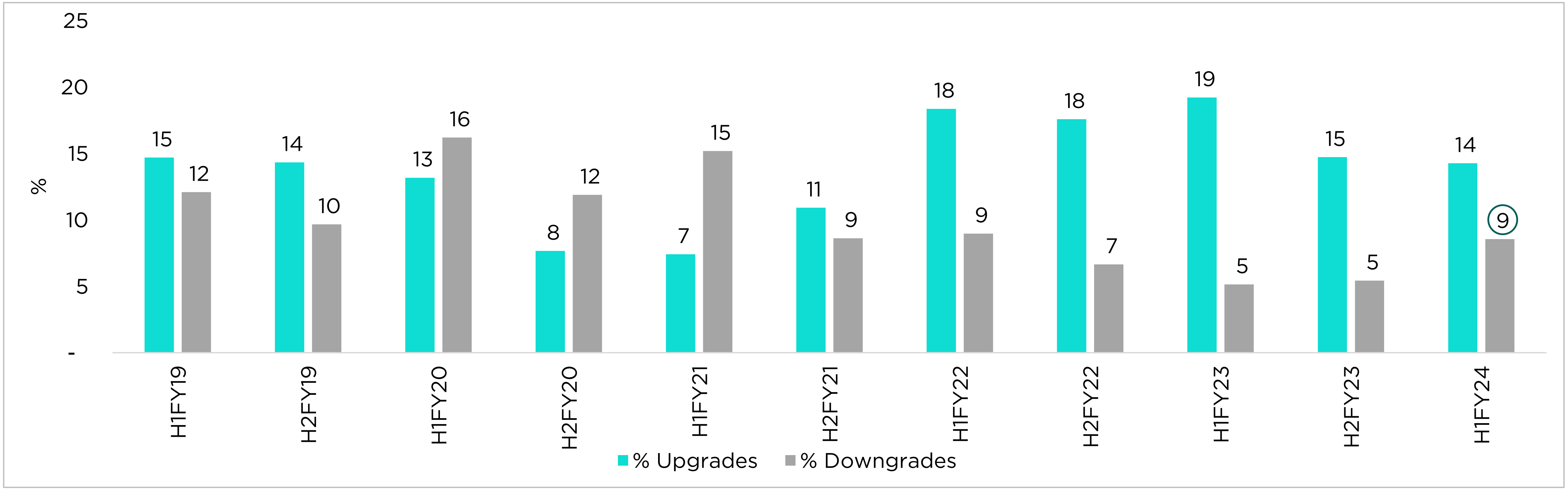
Higher rated entities depict resilience



Source: CareEdge Ratings

CARE AA, A and BBB rated entities witnessed significantly higher number of upgrades as compared to downgrades while the CARE BB and B category entities saw relatively lower gap between the proportion of upgrades and downgrades.

Normalisation in Credit ratio with higher proportion of downgrades

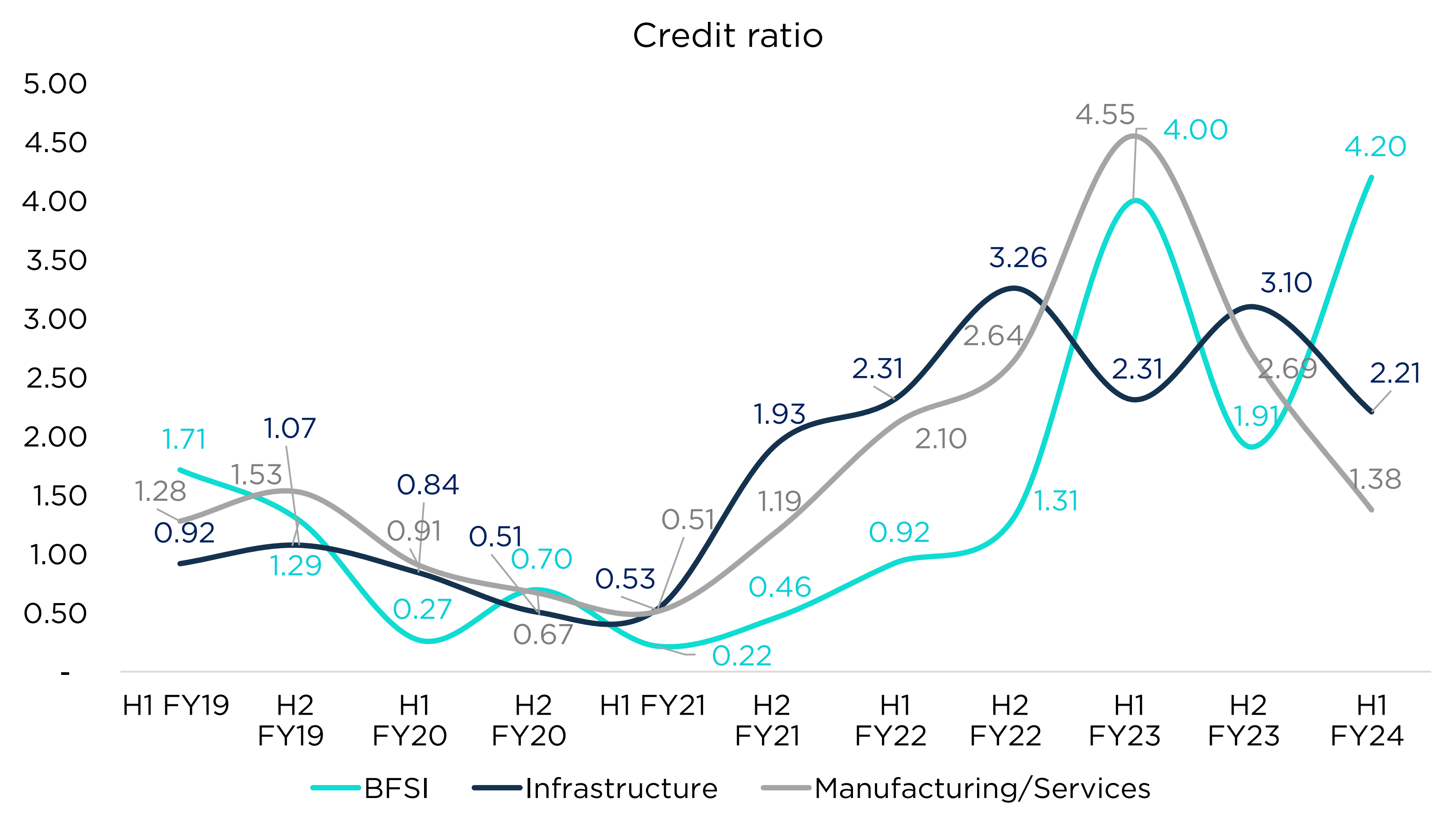


Source: CareEdge Ratings

- Normalization in the credit ratio in H1FY24 is primarily driven by higher proportion of downgrades in the rated portfolio in this period, increasing from 5% in H2FY23 to 9% in H1FY24.
- The percentage of upgrades to the total rating actions have dipped only marginally from 15% in the earlier half to 14% in H1FY24.

Sectoral Credit Ratio trends

Manufacturing and Infrastructure stabilize as BFSI sector shows upward momentum

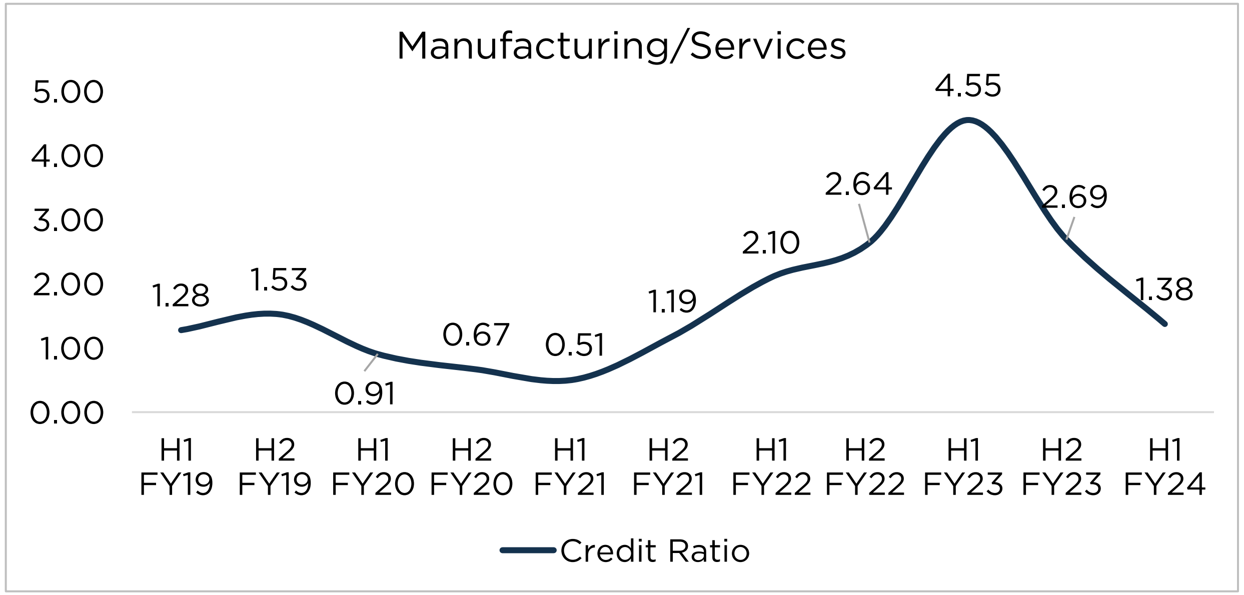


Source: CareEdge Ratings

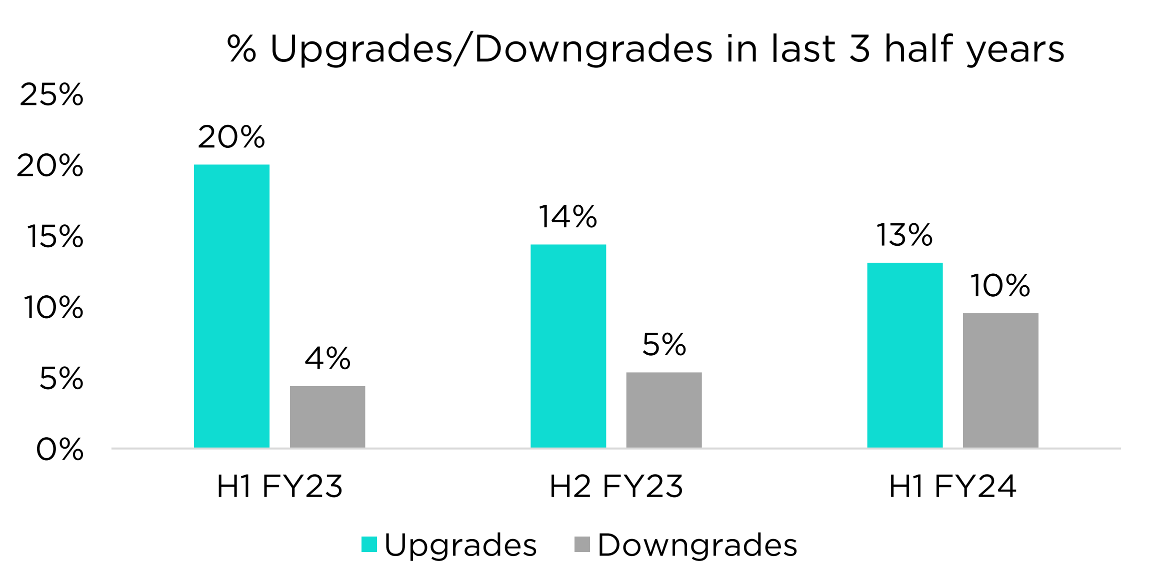
- The moderation in the Manufacturing and services sector was mainly driven by high proportion of downgrades in this sector.
- While the credit ratio of Infrastructure sector also saw a moderation, it continued to remain strong in H1FY24, driven by significantly higher number of upgrades in the transport infrastructure segment, followed by power sector.
- Credit ratio of the BFSI sector saw a sharp upward momentum, majorly driven by higher number of upgrades, both in the NBFC and banking space.

Manufacturing / Services

Manufacturing/Services: Credit ratio normalizes



Source: CareEdge Ratings

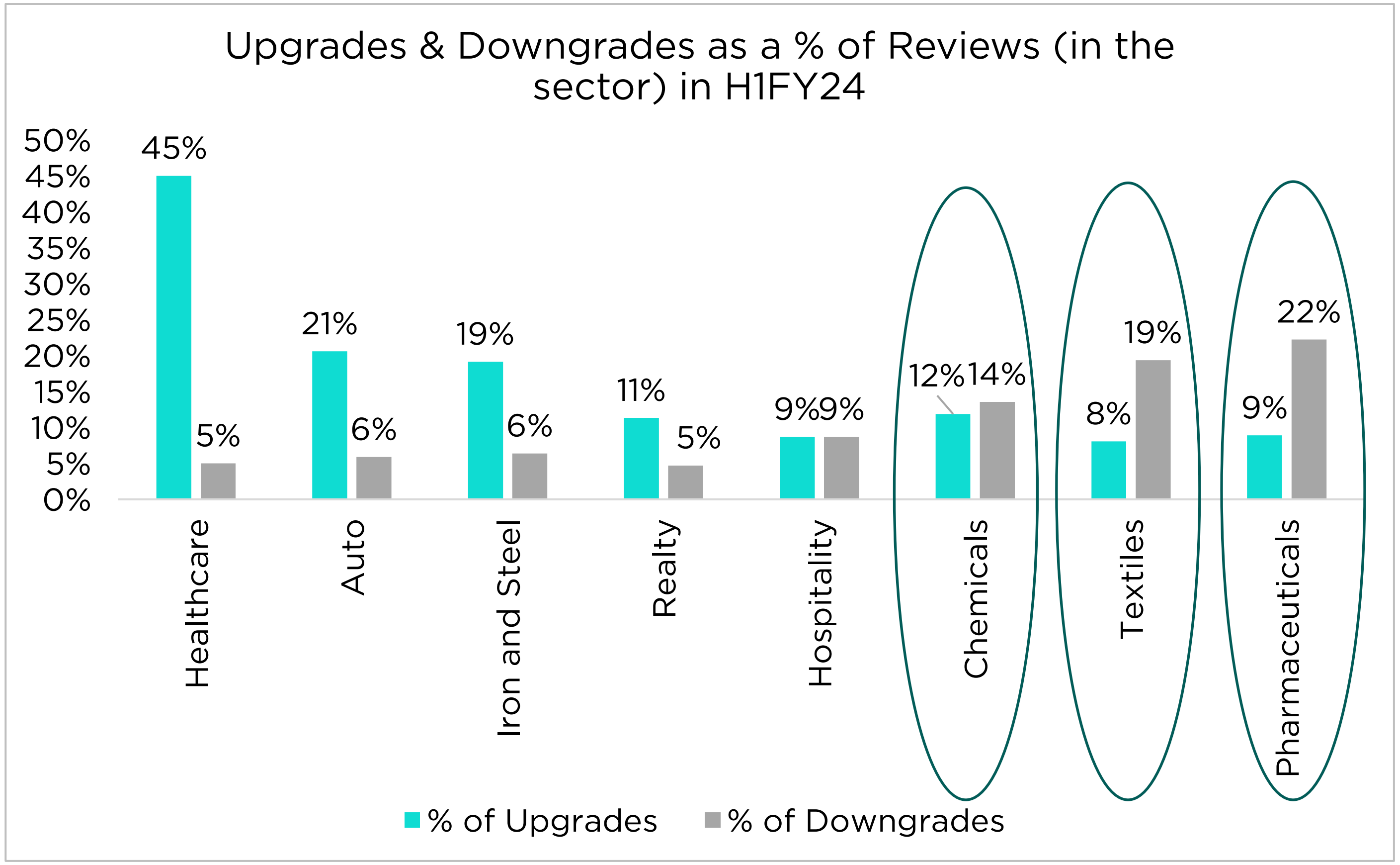


Source: CareEdge Ratings

Key drivers of the credit ratio for manufacturing and services sector in H1FY24:

- Most upgrades were witnessed by entities within the investment grade category, especially across sectors such as auto/auto components, iron & steel, real estate, hospitality, healthcare and logistics services.
- Most downgrades were witnessed by small and mid-sized entities having inherently weaker credit profiles across chemicals, textiles, API (Active Pharmaceutical Ingredients)/bulk drugs and agro-based sectors, with many of them being export-focused.

Export-oriented sectors under stress



Source: CareEdge Ratings

Outlook: Stable

Outlook:

- The credit quality of the manufacturing sector is expected to be stable on the back of sustained domestic demand, Government spending on infrastructure and envisaged benefits of schemes such as Production Linked Incentives (PLI). Corporates with deleveraged balance sheets will continue to exhibit resilience.

- Subdued global demand may impact some export focused sectors; albeit China+1 sourcing strategy of global players is expected to cushion the impact to some extent while likely fructification of Free Trade Agreements (FTAs) with key nations can expand the horizon for India Inc.

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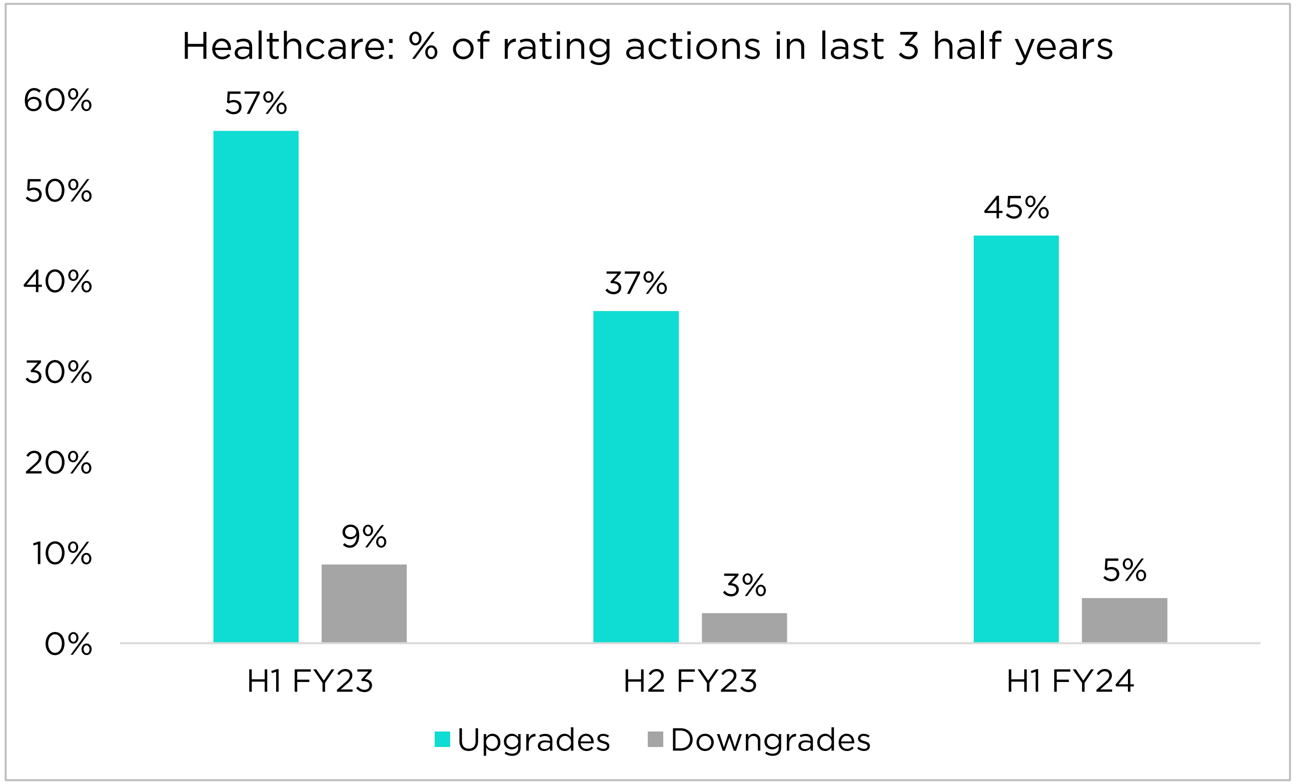
Healthcare: Thriving in Good Health

Outlook: Stable



Source: CareEdge Ratings

Upgrades driven by:

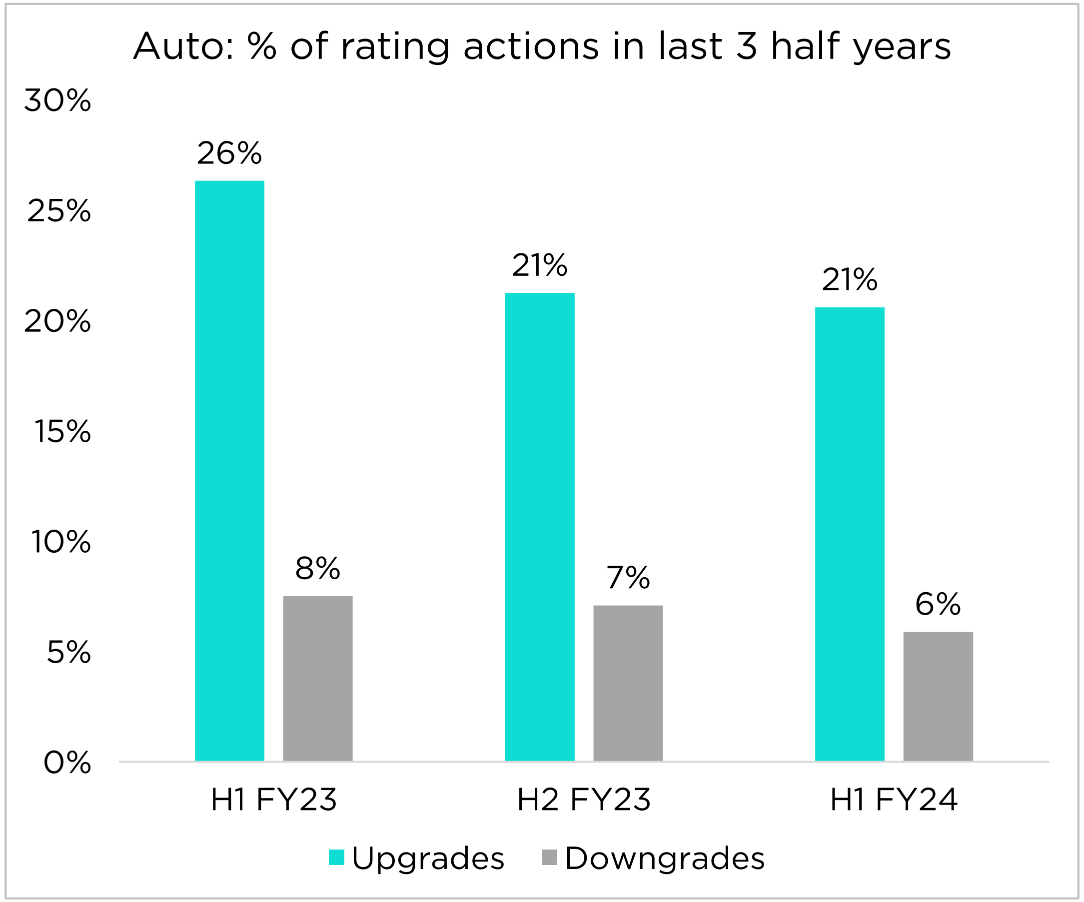
- Continuing increase in occupancy and Average Revenue Per Occupied Bed (ARPOB) translating into enhanced profitability and debt coverage indicators.
- Higher elective surgeries undertaken by hospitals amid pent up demand and health concerns post pandemic.

Outlook:

- While occupancy levels are expected to stabilize, revenues are likely to grow by 10-12% on the back of better payor mix with medical tourism inching back to pre-Covid levels, increasing insurance penetration and per capita income.
- Continuous capex expected by large players on the back of the demand-supply gap.
- Number of beds are likely to increase by 7-8% during FY24.
- Strong cash flow generation and strengthened balance sheets likely to drive consolidation.

Auto & Auto Components: Evolving Trends redefining demand

Outlook: Stable



Source: CareEdge Ratings

Upgrades driven by:

- Improving per capital income, changing product mix with increasing preference towards premium segment, ease in supply chain issues, gradual pick up in rural economy and resilient Indian economy driving the domestic demand, though exports continue to remain subdued.
- Strong demand for Utility Vehicles and Electric Vehicles (EVs) in the Passenger Vehicles (PV) and Two-Wheeler segment. The Commercial Vehicles (CV) segment posted sales volume growth of 34% y-o-y in FY23, and demand has been driven by pickup in infrastructure and construction activities and increasing last mile connectivity.
- Ramp up in production and growing demand supporting inventory correction with the Auto Dealers.
- Auto Ancillaries continuing to ride strong with robust demand from OEMs and replacement markets.

Outlook:

- Overall, the credit profile of auto & auto component industry is expected to remain stable.
- Better product mix with higher premium share, transition to hybrids/EVs are expected to support demand, especially for PV (growth of 7-9% expected) and two wheeler (modest at 5-6%).
- Fast tracking of infrastructure projects, continued growth in e-commerce will drive commercial vehicles demand (growth of 8-10% expected).
- Improved capacity utilization, prudent working capital management, healthy cash generation and deleveraged balance sheet will continue to support healthy credit profiles in auto segment.

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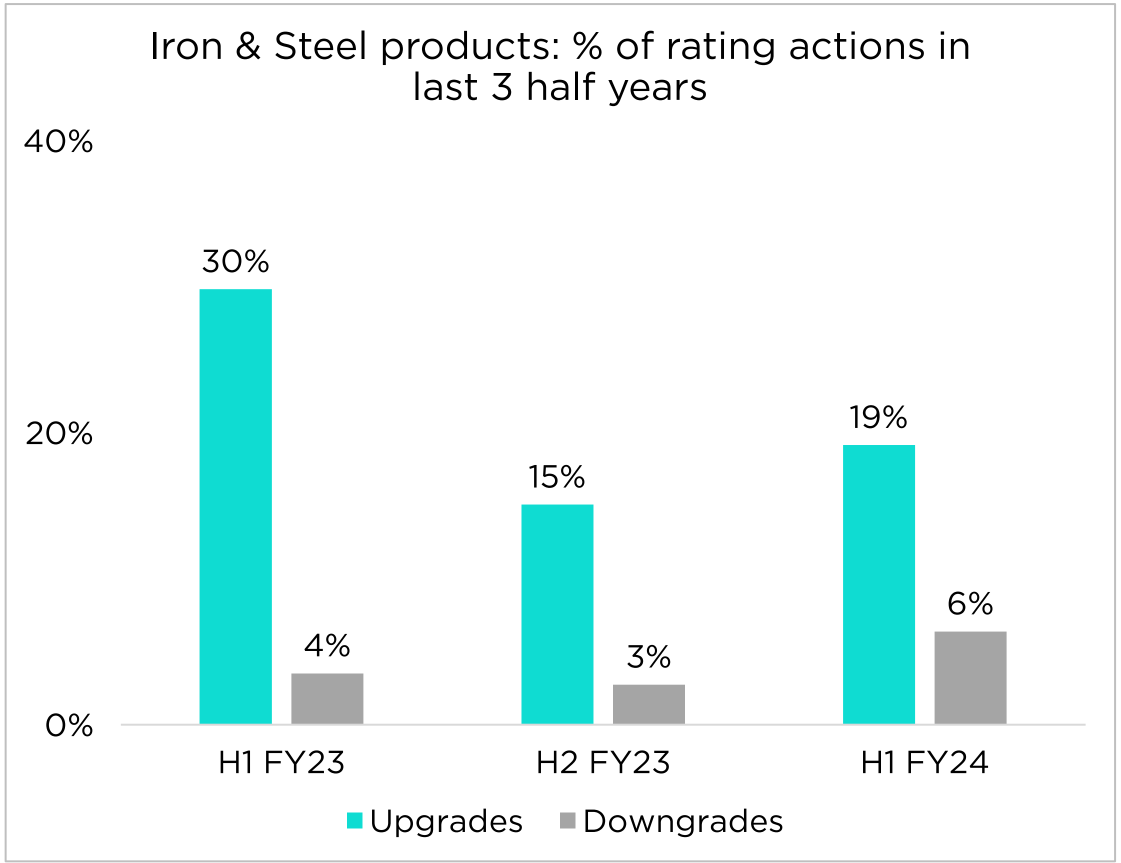
Iron & Steel: Domestic market remains resilient

Outlook: Stable



Source: CareEdge Ratings

Upgrades driven by:

- Continuation of robust growth in domestic demand along with rationalization of raw material prices resulting into improvement in operating and financial performance of the companies.

- Improvement in profitability during the second half of FY23, with continuation of the same during Q1FY24 leading to improvement in cash flows from operations, further improving the liquidity position and the solvency ratios of the companies.

Outlook:

- Global coking coal prices though have corrected, continue to remain highly volatile. CareEdge Ratings expects global coking prices to average at around US$ 225-275 per tonne during FY24, while iron ore prices have already witnessed significant correction and will continue to hover around US$ 100 per tonne. Global steel prices are likely to average around US$ 575-625 per tonne during the same period.
- Further easing of raw material prices, robust domestic demand outlook along with the likely pick-up of exports, owing to plough back of the export duty by the GoI would enable domestic companies to improve upon their sales volumes and profitability margins
- CareEdge Ratings expects domestic steel demand to grow at a CAGR of around 7-8% during the next 2-3 years, largely on account of robust demand from the infrastructure and automobiles sectors along with stable growth expected from other sectors .

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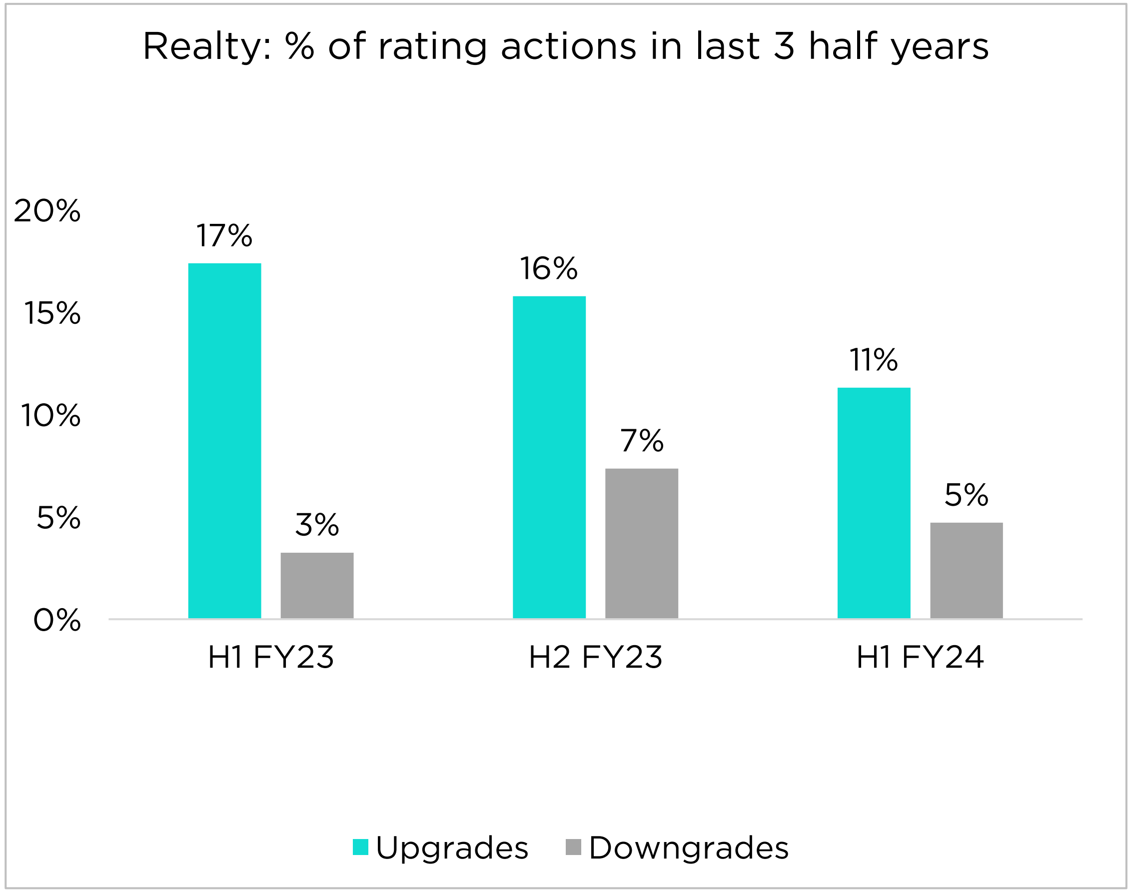
Realty sector: Cautiously optimistic

Outlook:
Residential: Moderately Positive
Commercial: Stable



Source: CareEdge Ratings

Upgrades driven by:

- Improvement in sales and collections, translating into timely completion of projects and reduced reliance on debt.
- Improved occupancy levels in leased assets and recovery in rental collections from retail

Outlook:

- After reporting highest residential sales (in top 7 cities) during CY22 in past 5 years, sales are likely to further improve by 8-10% in CY23 aided by strong launch pipeline by large real estate companies. Inventory overhang is likely to remain close to a year. However, multiple repo rate hikes and cost push would be monitorable.
- Due to slowdown in global markets, the demand for commercial leasing spaces by MNCs has been affected.
- With continuous launches planned and slow absorption, vacancy is likely to rise by 100-150bps (for 8 key cities). Timely passage of SEZ amendment bill is key lookout. However, it remains a favorable asset class in the long term.
- Retail mall consumption is expected to be better than pre-Covid levels despite inflationary pressures. This would drive new launches and absorption. Vacancy level would remain range bound at 15-17% in key 8 cities with rental appreciation of 10-15%.

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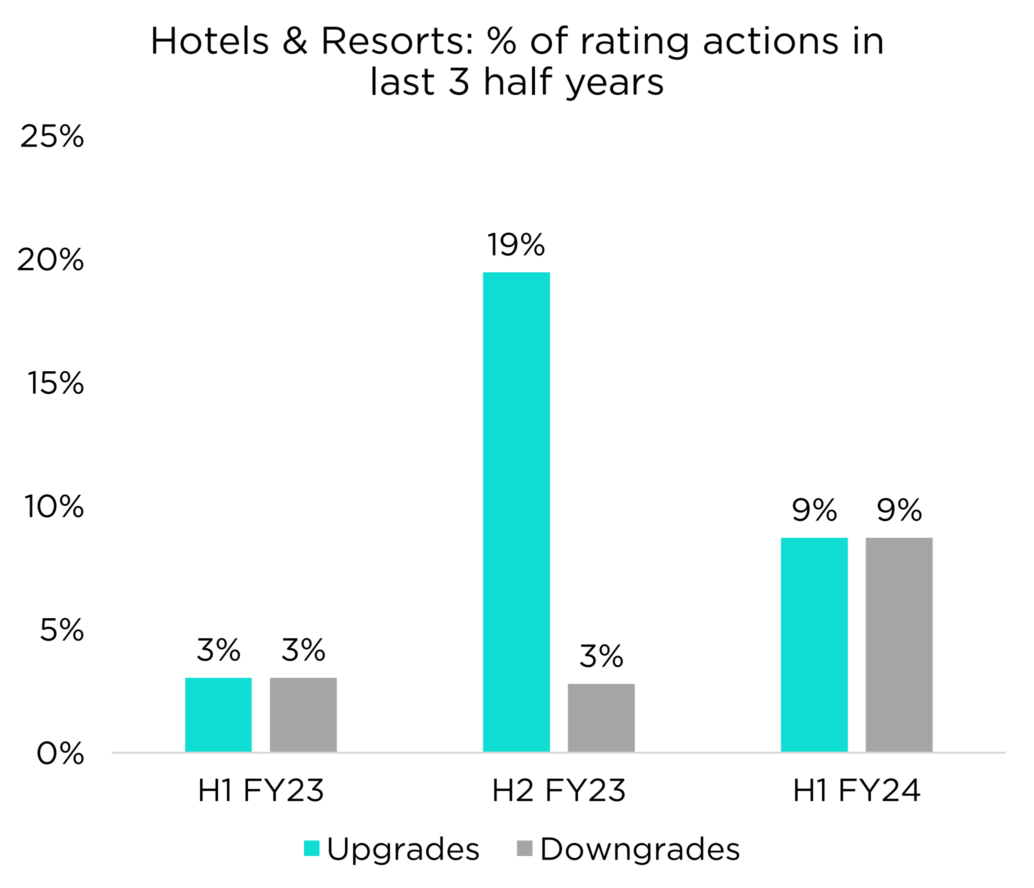
Hospitality Sector: Bounce back with a promising path to growth

Outlook: Positive



Source: CareEdge Ratings

Upgrades were triggered by:

- Increase in the occupancy and ARR led by higher demand from tourism and increase in business travel post covid. Further the demand has improved in micro markets owing to multiple events like G20 and Cricket World Cup
- Improvement in overall operational and financial performance and capital infusion

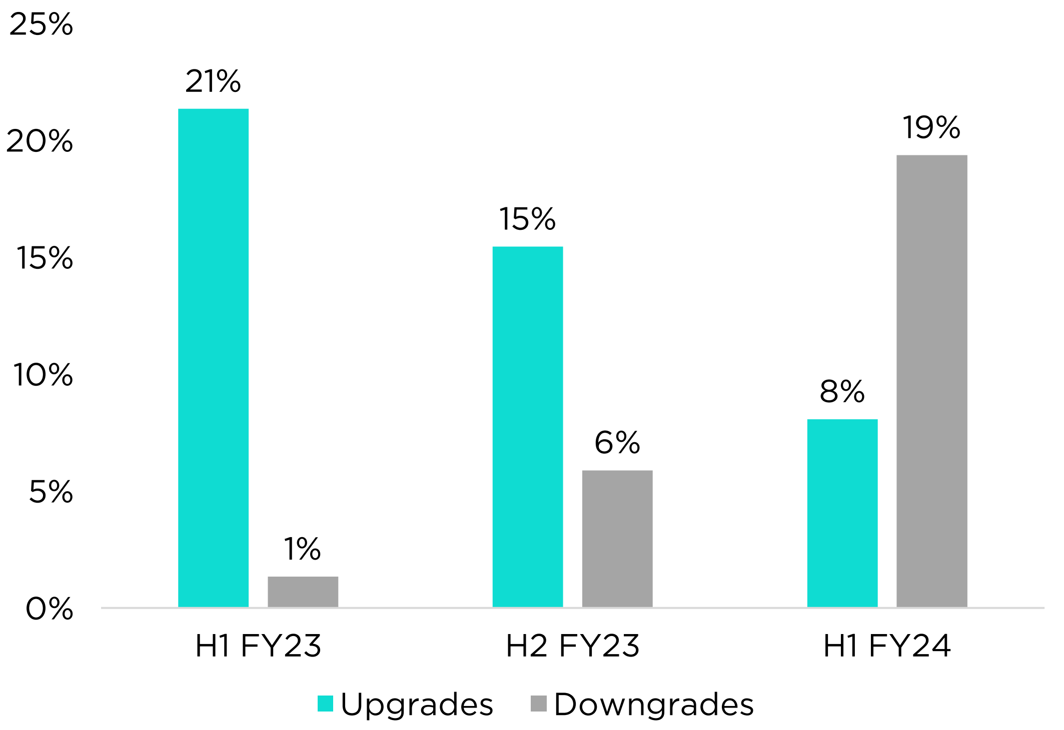
Outlook-

- Sector poised to resume deferred projects and undertake new ones. More projects coming in travel destination owing to increased consumer preference for quality stay, post covid
- Reversal of fortunes of hospitality players in the fiscal year 2023 with sector now steadily heading towards its growth path. Pan-India average hotel occupancy expected to be at 67-69%, with ARR at Rs 6,200-6,400 in FY24.
- Leisure destinations having faster recovery and traction seen in MICE (Meetings, Incentives, Conferences and Exhibitions); domestic tourism continues to be the growth driver.
- Foreign tourist arrivals (FTAs) have witnessed a year-on-year uptick in FY23, and FTA for the full FY24 is expected to reach the pre-covid level.
- Leveraging India's G-20 presidency, the ICC Cricket World Cup, and the resumption of foreign inbound travel, along with robust domestic leisure travel, the occupancy and ARR should continue to inch higher, with RevPAR estimated to grow 3%-5% over FY23 levels.

Textiles: Global issues starting to hit

Outlook: Stable

Textiles: % of rating actions in last 3 half years



Source: CareEdge Ratings

Downgrades driven by:

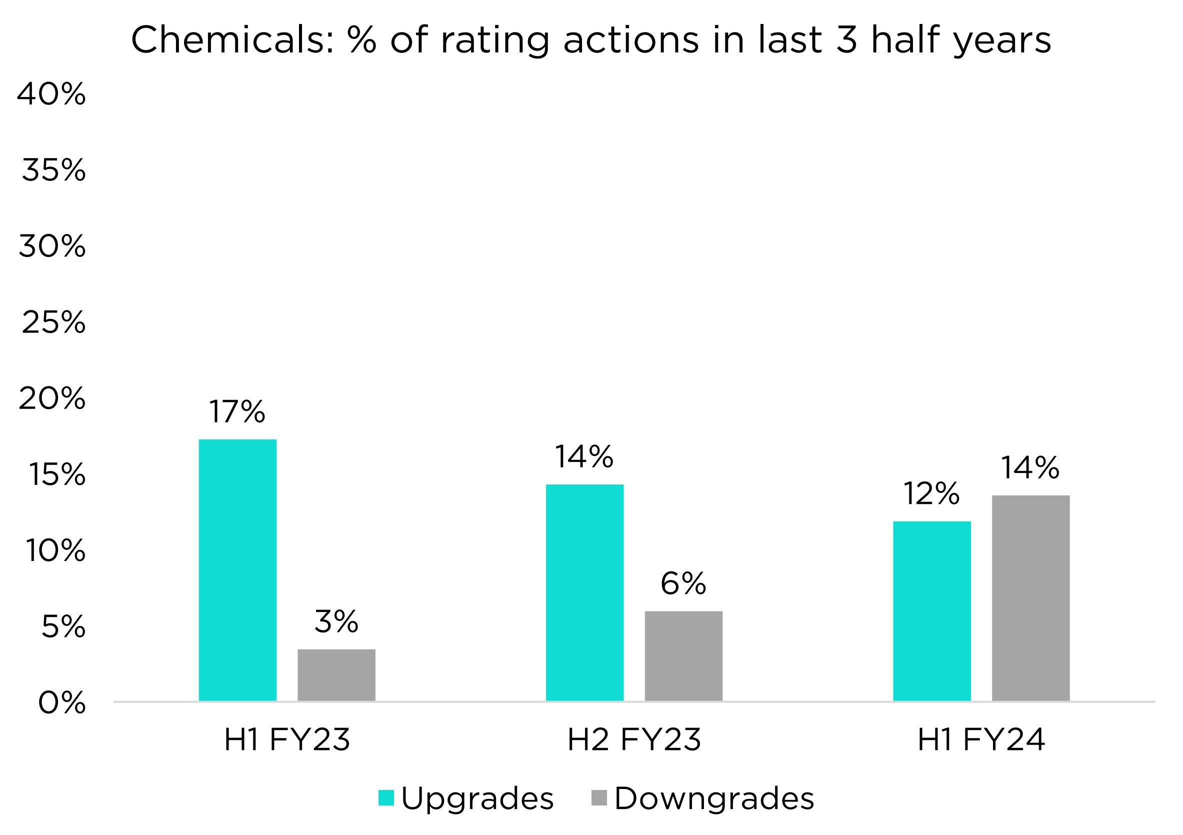
- Weakening of operational and financial parameters owing to weak export demand; Indian textile exports were lowered by 8.68% during April-July 2023 on a y-o-y basis.
- Inventory losses due to correction in cotton prices leading to tight liquidity
- Elongation in operating cycle due to stretched collection period
- Tightly matched debt repayment obligation against expected cash accruals in near term

Outlook:

- Slow export demand would be compensated by strong domestic demand
- Softening of cotton prices along with alignment of Indian cotton prices with international prices shall benefit both demand and profitability of industry
- Free Trade Agreements to expand the horizon for Indian players
- Indian players gaining from the China+1 sourcing and continuing US ban on the use of cotton from Xinjiang, apart from shift in demand from competing nations due to their local issues
- Expected rebound in global demand in H2FY24 with restocking of inventories by global retailers
- Indian Ready-made garments (RMG) segment revenue is likely to grow at around 6-8% while cotton yarn segment is likely to witness sales volume growth of 5-7% in FY24 over FY23.

Chemicals: Hit by subdued exports

Outlook:
Specialty chemicals: Stable
Basic chemicals: Negative



Source: CareEdge Ratings

Upgrades driven by:

- Sustained domestic demand in companies catering to some speciality chemicals market

Downgrades driven by:

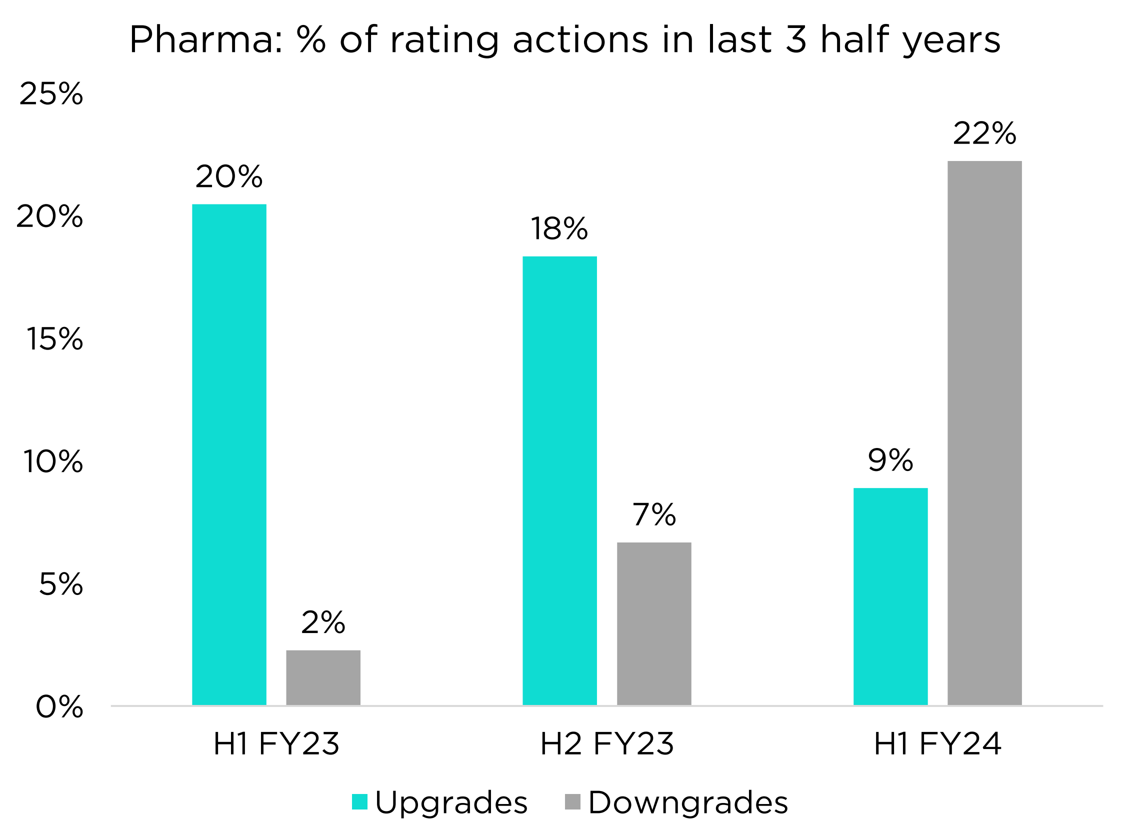
- Subdued performance and cautious near-term outlook in some sub-segments of the chemical industry, mainly catering to the export market

Outlook:

- Overall moderation in performance expected in FY24 with expected recovery from FY25
- Companies catering to sectors like textiles, dyestuff, chlor-alkali, agrochemicals in the export market may be impacted more
- Weak export market led by subdued global demand, increased competition from China and destocking of inventory are the dampeners for the industry
- Operating margins are expected to remain under pressure in near term due to declining chemical prices and volatile raw material cost
- Leverage is expected to remain comfortable; capex would largely be funded through internal accruals

Pharmaceutical & Biotechnology: Temporary weakness but supported by healthy balance sheets

Outlook: Stable



Source: CareEdge Ratings

Downgrades driven by:

- The entities that are exposed to product concentration risk and are relying more on sale of Covid products have seen considerable weakening in financial risk profiles due to dampening in demand.
- The entities that have faced challenges from regulatory authorities and those unable to receive approvals for launch of new products have seen continuous dent in profitability margins.

Outlook:

- Operating margins expected to expand by 100-150 bps to 22% in FY24 over FY23 as the raw material prices are stabilizing, freight rates are normalising, and pricing pressure in the US generics market is easing. Also, patent cliff is expected to provide healthy opportunity to pharma exports.
- Overall Credit profiles are expected to remain stable due to low reliance on debt and well managed balance sheets.
- Exports and domestic pharma markets expected to grow at 7-8% in FY24.
- In the long term, the sector is expected to continue to grow due to the increasing demand for healthcare services, aging population, and rising incomes in emerging economies. However, concerns with respect to adverse observations if any from regulatory authorities would remain key monitorable.

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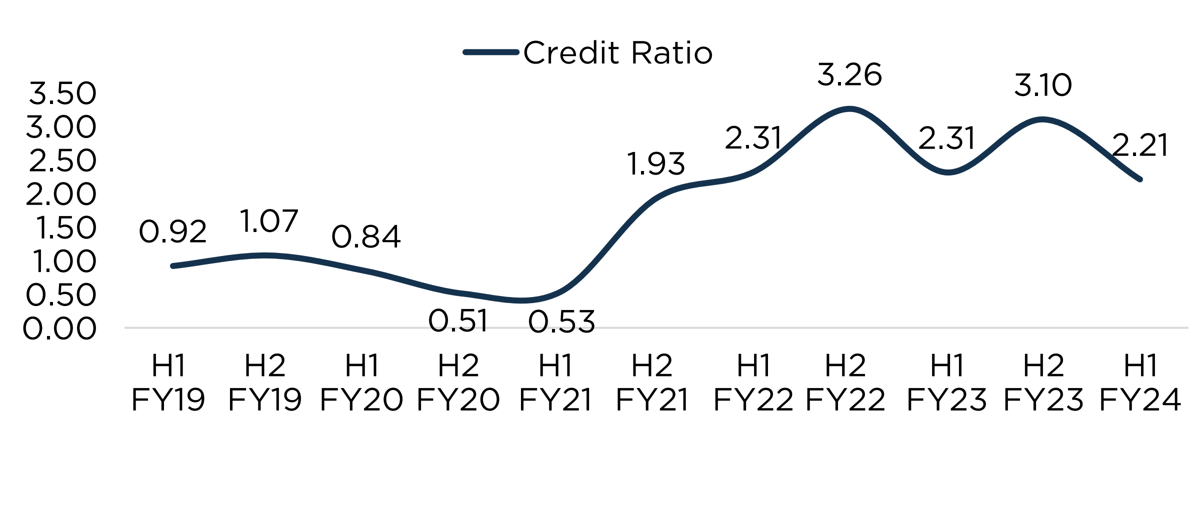
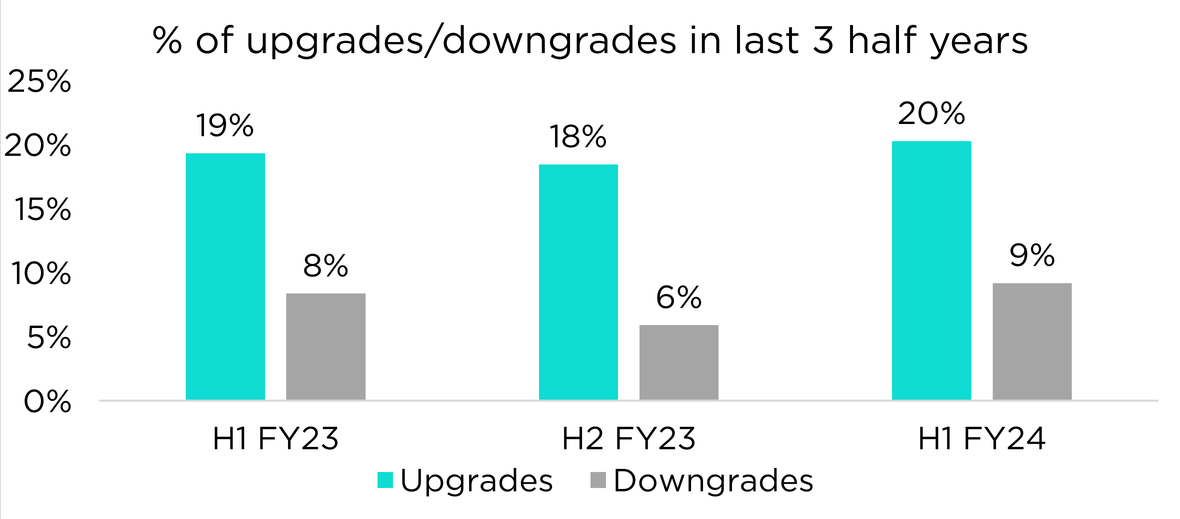
Infrastructure

Infrastructure: Credit ratio remains strong

Outlook: Stable



Source: CareEdge Ratings



Source: CareEdge Ratings

Key identifiable drivers:

- Commissioning of projects, especially in the road Hybrid Annuity Model (HAM) segment & solar power generation space.
- Benefits of Atmanirbhar Bharat schemes like EMI and PLI etc. providing a fillip to power companies.
- Refinancing of projects at better financing terms and structured financing avenues like co-obligor arrangements, InvITs.
- Enhanced execution pace along with strong order inflows in Construction & transport infrastructure entities
- Operational HAM assets enhance financial flexibility of EPC developers
- Improved liquidity profile for EPC companies with easing of receivable days post Covid
- Non-compliance in Statutory requirements adversely impacting financial flexibility

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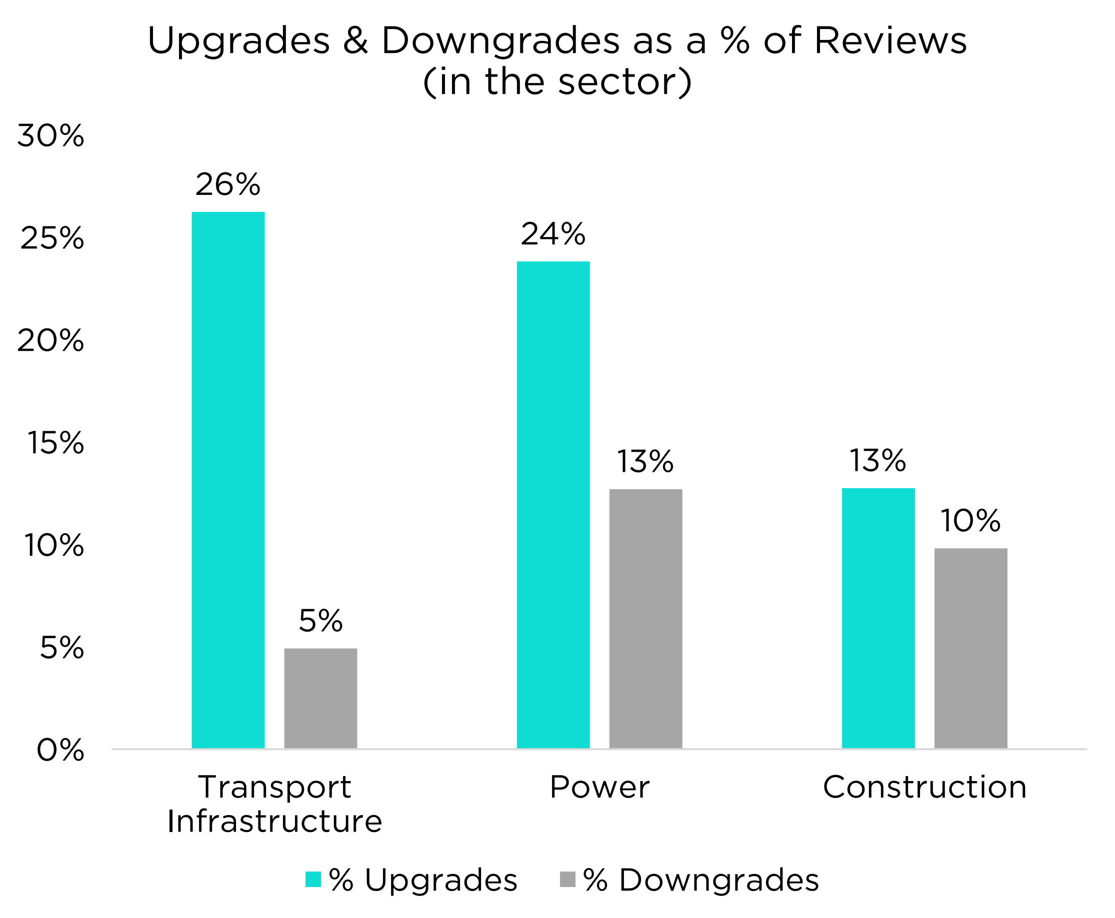
Transport and Power segments drive infra upgrades; Construction sector holds steady ground

Outlook: Stable



Source: CareEdge Ratings

Outlook

❖ **Transport infrastructure:**

- Revenue visibility enhanced with infrastructure push by the Government – Transportation segment to drive growth in awards.
- Toll collections likely to grow by 12% in FY24 supported by favourable movement in WPI and traffic revival.

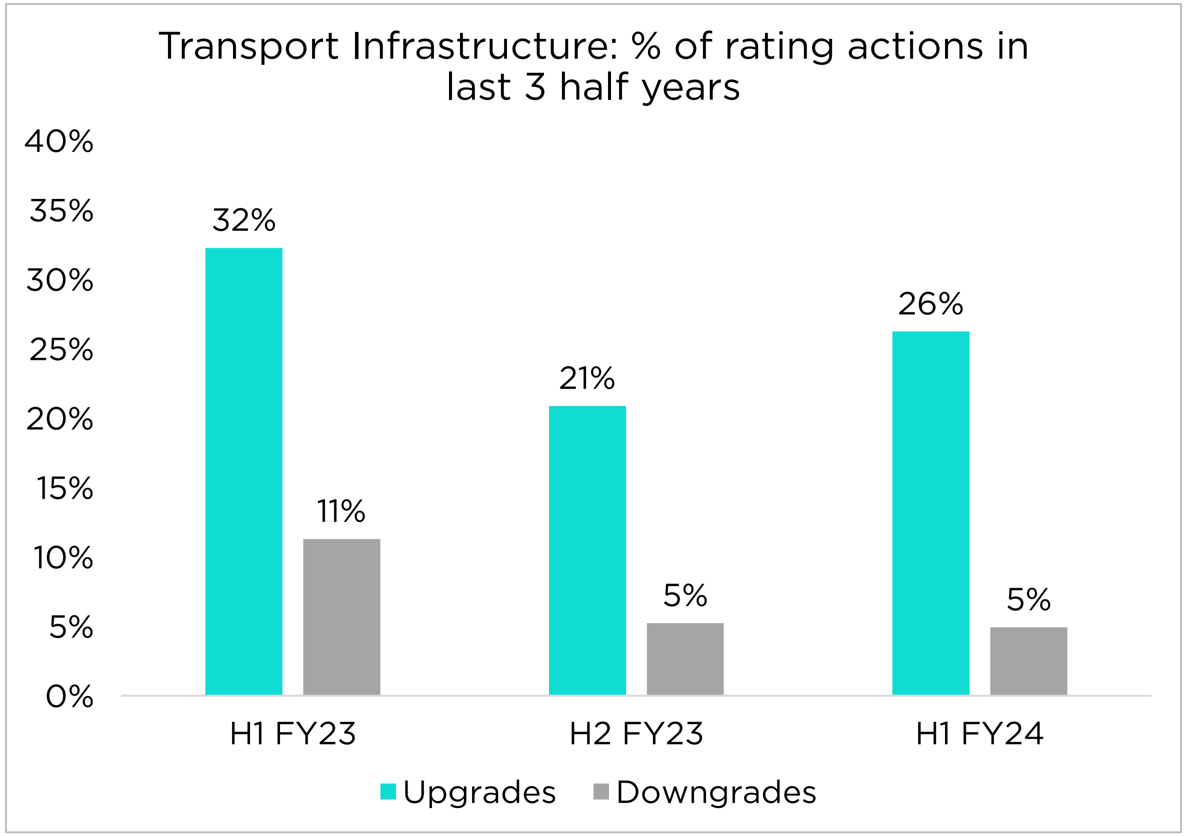
❖ **Power:**

- Thermal PLFs likely to remain steady at ~60%
- Implementation of EMI scheme – key enabler for improvement in collection efficiency
- Renewables tariff to rise but shall remain competitive vis a vis conventional power;
- Persistent headwinds : Execution-related challenges, regulatory uncertainties in key states, increase in input prices and interest rates

❖ **Construction:**

- EPC margins to recover from FY23 levels with addition of orders at new rates/reduction in commodity prices from peak level.

Increasing operational assets driving upgrades



Source: CareEdge Ratings

Outlook: Stable

Upgrades driven by:

- Hybrid Annuity Model (HAM) Projects achieving Commercial Operations Date (COD).
- Significant reduction in finance costs with refinancing post receipt of annuities in completed HAM projects.
- Robust toll performance post Covid.

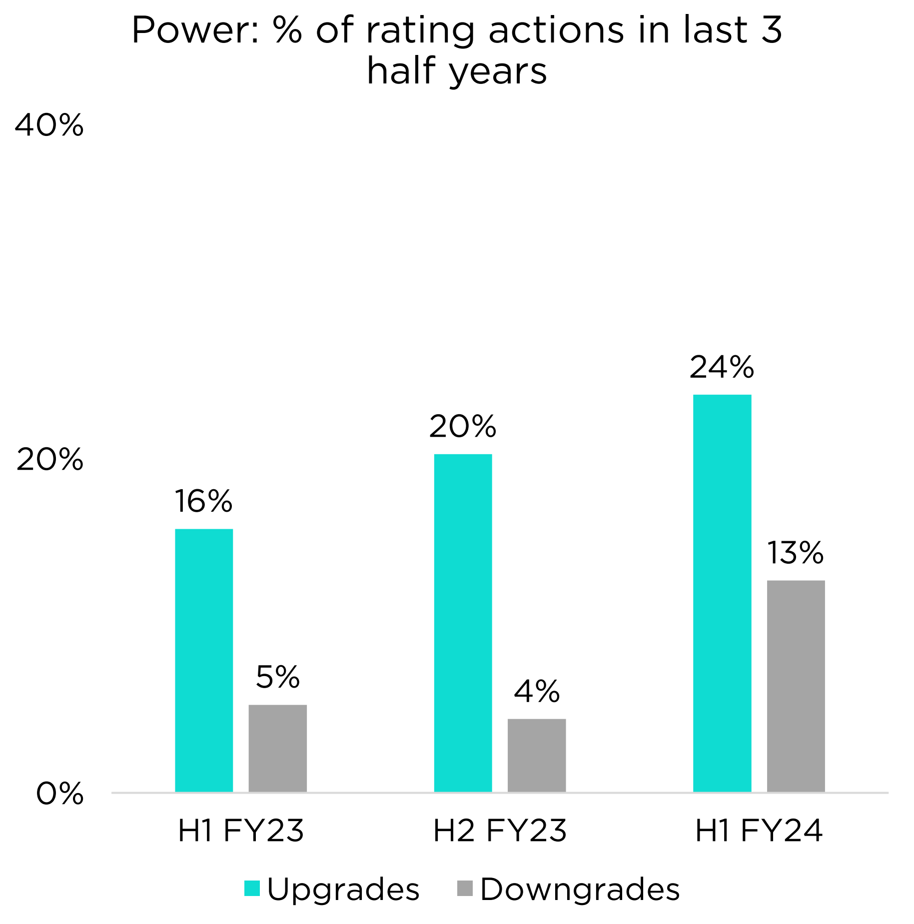
Outlook:

- Strong asset monetization pipeline with HAM projects of Rs. 1 lakh crore operational as on June 30, 2023.
- Execution headwinds expected in the HAM projects awarded post March 2020 due to aggressive bidding, entry of moderate sponsors and increased project complexities
- Toll collections likely to grow by 12% in FY24 with favourable movement in Wholesale Price Index (WPI).

CareEdge RATINGS

Power: Robust demand, improved collection among key drivers

Outlook: Stable



Source: CareEdge Ratings

Upgrade Drivers:

Thermal
- Higher realization from discoms utilized for de-leveraging and improving liquidity.
- Additional tie up of power through medium term Power Purchase Agreements (PPAs)/ award of captive mines thus reducing fuel risk and increasing cost competitiveness.

Renewables
- Longer operational track record with better Plant Load Factors (PLFs), implementation of Equated Monthly Installment (EMI) scheme strengthening collection efficiency
- Improvement in project viability due to marked decline in module prices

Downgrade Drivers:

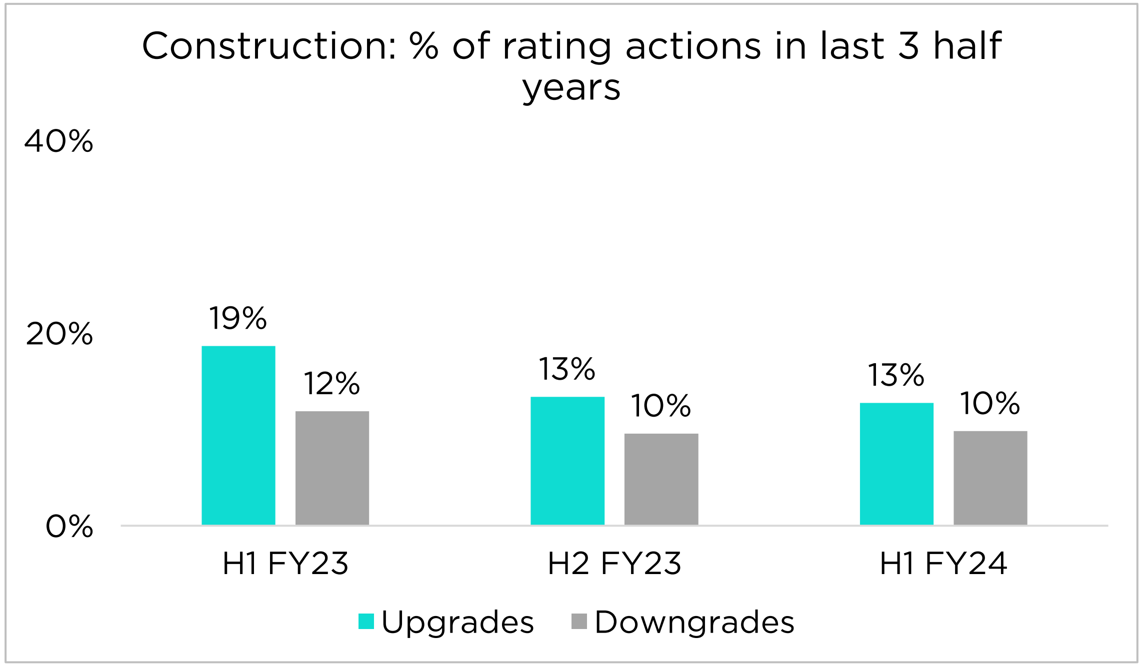
Thermal
- Suboptimal operational performance leading to liquidation of DSRA

Renewables - 55% of downgrades pertain to BIG category
- Non-compliance in Statutory requirements adversely impacting financial flexibility

Outlook:
- Sustained high demand leading to 5-yr high thermal PLFs (64% in FY23, 65% in FY24E).
- Merchant prices to moderate in FY24 from FY23 level, yet much higher than Rs. 3/unit (i.e long term avg.)
- Gradual realization of overdue receivables (as Last Planner System (LPS) Scheme is implemented), aiding liquidity
- Renewables tariff to rise due to applicability of Approved List of Models and Manufacturers (ALMM) and Basic Customs Duty (BCD) but shall remain competitive vis a vis conventional power
- The share of storage-based investments are expected to rise over the medium term
- Persistent headwinds -Execution-related challenges, regulatory uncertainties in key states and interest rates.

CareEdge RATINGS

Construction: Strong infra-led order inflows support growth for diversified EPC players



Source: CareEdge Ratings

Outlook: Stable

Upgrades were triggered by:

- Government focus on Infrastructure – key growth driver
- Opportunities for diversified EPC players via National Infrastructure Pipeline (NIP)
- Strong order book boosting revenue visibility
- Operational HAM assets providing financial flexibility
- Benefit of Atmanirbhar Bharat thereby reducing working capital intensity

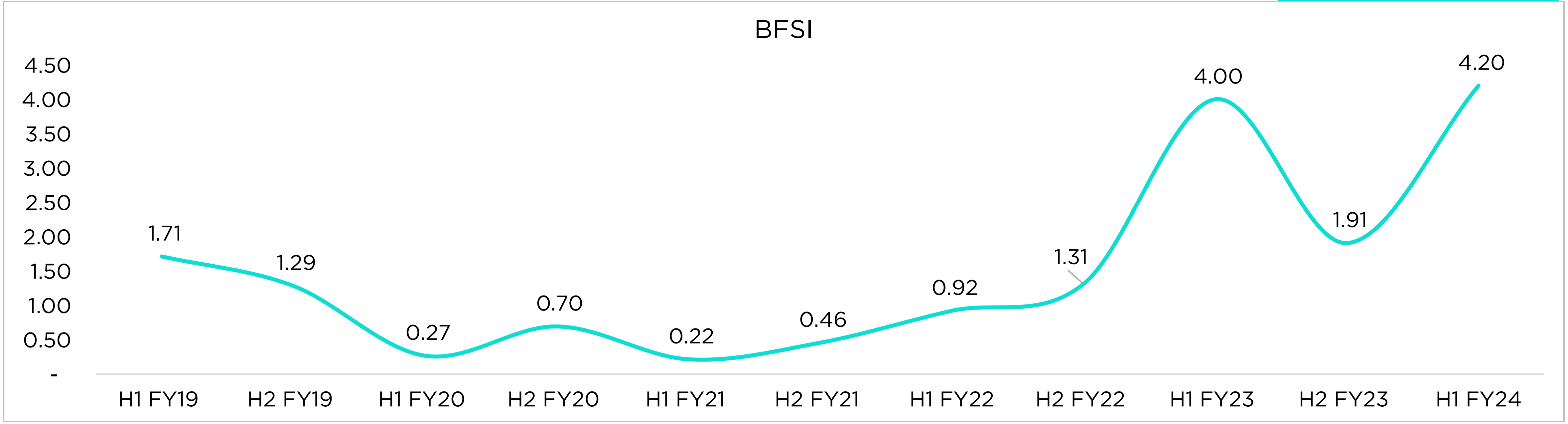
Outlook- Infrastructure led order book to continue

- Revenue growth backed by strong orders in hand and in pipeline
- Diversified EPC players to benefit from the NIP
- Strong asset monetization pipeline
- Heightened execution challenges in road projects awarded post March 2022

Banking and Financial Services

Strong Business performance supports improvement

Outlook: Stable



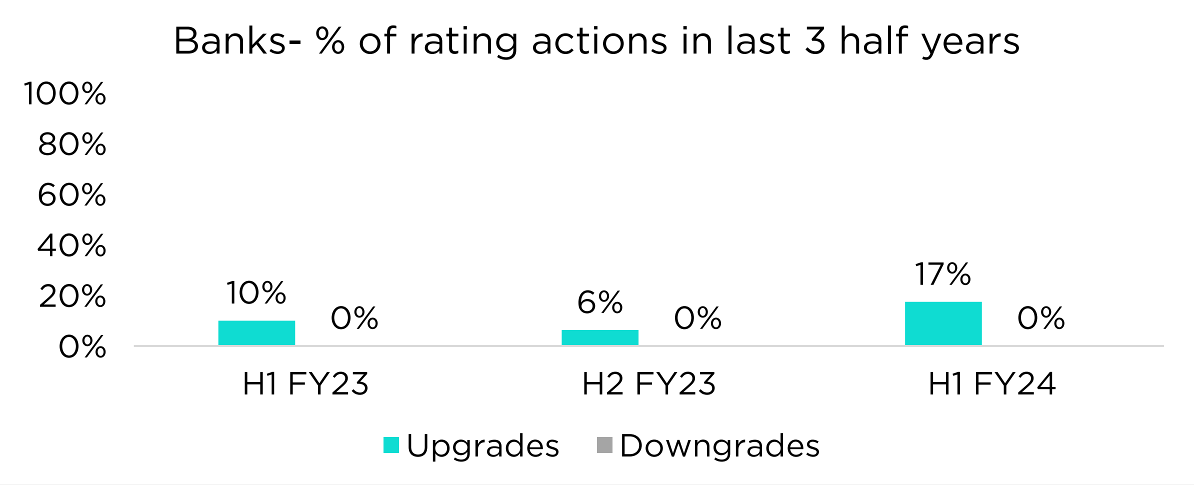
Source: CareEdge Ratings

- Banks and Financial Services sector reporting healthy credit ratio for the past two years with the trend continuing in H1FY24
- Post COVID and related asset quality concerns, credit ratio for the BFSI sector crossed unity for the first time in H2FY22 after a period of three years. Subsequently, with the sector demonstrating improvement in asset quality and strong equity capital raising abilities, Credit Ratio rose to 4.00 in H1FY23.
- The Credit Ratio though witnessed dip in H2FY23, stood strong at 1.91 in H2FY23 and peaked to 4.20 in H1FY24. Credit Ratio during H1FY24 is driven by improved profitability with most of the players in financial services scaling up the businesses and strengthening the capitalization through fresh equity mobilization.
- Credit Ratio improvement of banking players during this period was driven by sharp improvement in Net Interest Margins (NIMs) supported by hardening interest rate environment, improved asset quality and capitalization metrics.

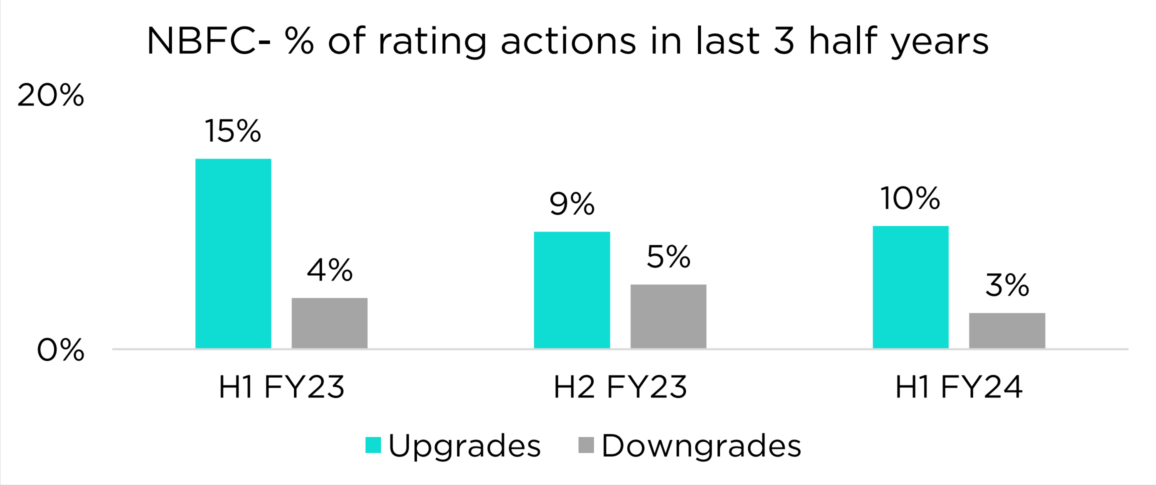
*NBFC sector is renamed as Financial services as per the new industry classification prescribed by SEBI

Both Banks and NBFCs drive credit ratio

Outlook: Stable



Source: CareEdge Ratings



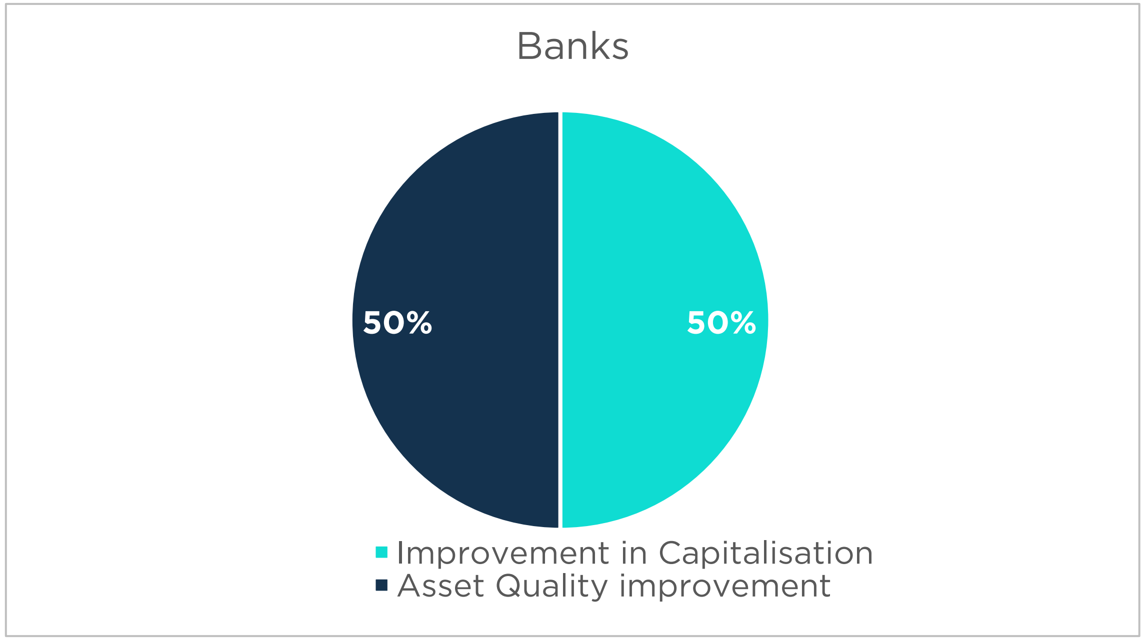
Source: CareEdge Ratings

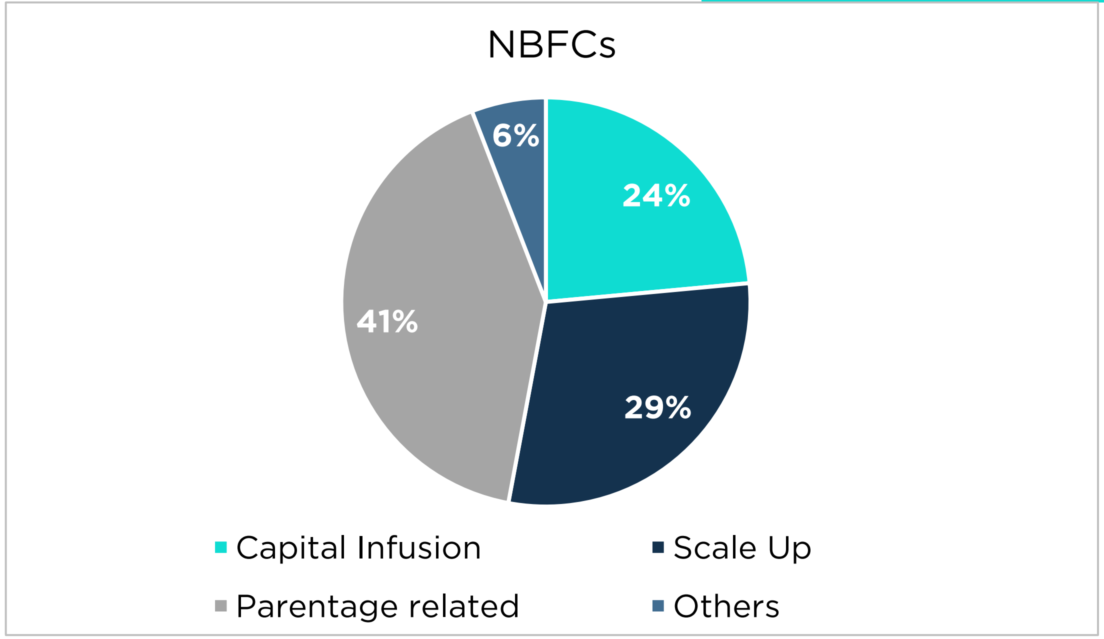
Outlook:

- Credit growth in banking sector has remained strong in FY24 (YTD) at around 15% and the banking sector is expected to witness credit growth of 13-13.5% in FY24. Retail loans followed by Services segment are expected to be major growth drivers.
- Profitability of banking sector is expected to witness slight moderation in FY24.
- NNPA (Net Non-Performing Assets) for the banking sector is at its lowest ever level of 0.9% at the end of Q1FY24. With continued improvement in asset quality. With Public Sector Banks now catching up with their Private Sector counterparts, with continued improvement in asset quality, the NNPA percentage is poised to trend downwards in next few quarters.
- Despite rising interest rates, profitability in mid sized NBFCs/ financial services will be protected, due to optimization of operating expenditure (opex), moderated increase in interest rates and lower credit costs.
- In this backdrop, the credit outlook is expected to be stable for Banks and NBFCs/ financial services

Asset Quality and capitalization drive upgrades

Outlook: Stable





Banks- Upgrades in the banking sector were mainly on account of improvement in asset quality and capitalization. Also, two of these banks had majority of the ownership and continued support by the Government of India (GoI).

NBFC - The proportion of upgrades in NBFCs continues to be high in H1FY24 and attributed to:
- Strong business performance supported by continuous scale up and resultant improvement in profitability,
- NBFCs with differentiated and niche business models attracting fresh equity and strengthening capitalization
- Upgrade in parent ratings resulting into upgrades in entities which are part of conglomerates

Outlook on Credit Ratio: Expected to remain range-bound

- Indian Corporates have exhibited a steady performance despite the global challenges, with a normalisation in credit ratio in H1FY24.
- India's high-frequency economic indicators point to healthy consumption demand thereby signaling resilience in the domestic economy.
- India's GDP growth is expected to moderate due to base normalization in the coming quarters. Nevertheless, India still remains one of the fastest growing major economy.
- In this backdrop, the credit ratio in the near term is expected to remain range-bound.

Downside risks:

Global issues like volatility in commodity prices, and geopolitical risks pose headwinds for global growth.

Demand-Supply mismatch in China may lead to higher exports from China.

Sub-normal monsoons may affect rural demand

Resurfacing of inflationary pressures and external spillovers remain the key watchouts.

Thank you

Authors:

Sachin Gupta	I	Executive Director and Chief Rating Officer
Rajani Sinha	I	Chief Economist
Sanjay Agarwal	I	Senior Director
Ranjan Sharma	I	Senior Director
Rajashree Murkute	I	Senior Director
Smita Rajpurkar	I	Director
Gurninder Aurora Bangera	I	Assistant Director

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

About Us

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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 I CIN: L67190MH1993PLC071691
For queries / feedback write to us at: corp.comm@careedge.in

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